Proprietary
INDUSTRIES INC.

2003 ANNUAL REPORT

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Proprietary Industries Inc. is a principal merchant bank which owns, manages and deals in a portfolio of financial, natural resource and real estate interests. Proprietary is based in Calgary, Alberta and is listed on the Toronto and Swiss Stock Exchanges under the symbol PPI.

Letter to the Shareholders

January 5, 2004

I am pleased to present the financial and operating results of Proprietary Industries Inc. for the year ended September 30, 2003. To say that it has been a year of challenges would be an understatement, but we have made great progress in our endeavours to stabilize the Company and institute appropriate governance practices. As stated in my letter to you last May, "The mandate and objective of this management is to stabilize the financial condition and operations of the Company to enable it to be understood by shareholders who can then play a part in determining its future direction." We have worked hard toward achieving this objective and we are now able to say that:

- the impending liquidity crisis facing the Company earlier in the year has been largely remedied,
- we have developed and are implementing a recovery plan, and
- we are now in a position to realistically assess our options going forward.

THE YEAR IN REVIEW

At the beginning of the fiscal year, the Company faced a significant debt load; a portfolio of assets that, while generating revenue, could not service the debt taken on to acquire them; an enforcement action by the Alberta Securities Commission (ASC); cease-trade orders in five provinces; extensive litigation; and a liquidity crisis. The Company has taken legal action against its former President and CFO. Alleged securities law breaches by these former Proprietary executives have been described as "as bad as it gets."

A large part of our recovery plan involved finding the right people to strengthen our board and our management. To that end, Patrick Lavelle, Robert Julien and I were asked to join the Board of Directors in January. Mr. Lavelle is the former Chairman of both Export Development Canada and the Business Development Bank of Canada. Mr. Julien is President of Kolter Property Company, a North American commercial and residential property and resort developer. Both bring valuable knowledge and experience to the Board to help guide the Company through the litany of operational, financial and strategic issues we have faced over the last year. My experience includes being the former Vice Chairman and CFO of Magna International. With the resignation of Charles Raymond in February, I assumed the position of President and CEO in addition to my responsibilities as Chairman of the Board. Also, the size of the Board was reduced from ten to three directors.

In April, Proprietary entered into an agreement with Alliance Pacific Group (APG) under which APG was engaged to assist the management of the Corporation to develop and execute a remedial plan over a term of 18 months. APG's services to date have included advising in the areas of corporate development and reorganization, strategic planning, corporate finance, investment analysis, litigation, regulatory issues and divestitures. APG has also provided the services of Graham Garner who joined Glenn F. McCowan, CFO and me on the management team as Executive Vice President. Both the Board and management team received broad support from the shareholders at the Company's AGM in June.

One of the first steps in our recovery plan was to deal with significant amounts owed to trade creditors, looming repayment obligations under loan agreements, overwhelming debt servicing requirements (including a loan at 36% interest) and the resulting risk of insolvency. Accordingly, we sought and obtained interim financing from one of our shareholders, and then reviewed our asset portfolio to identify the best candidates for rationalization. These decisions were based on a number of factors, including the operating revenue each individual asset generated versus its overhead costs. Beginning in May 2003, we divested our minority interests in three limited partnerships, 14,057,500 shares of Invader Exploration Inc., two golf facilities, and an apartment complex in Arizona for aggregate proceeds of $39 million, all of which went toward reducing our debt and supporting company overhead. Total debt reduction to September 30, 2003 amounted to $36 million. Subsequent to year end, the disposition of our 63.3% interest in Canadian Rocky Mountain Properties and further rationalizations have permitted the Company to reduce debt by an additional $26.5 million.

We reduced overhead by closing our U.S. office in Phoenix, AZ, eliminating U.S. management and staff, and transferring all corporate functions to the Calgary office. We have also been able to renegotiate or refinance certain debts that have come up for renewal, and I am pleased to say that we have repaid the 36% interest rate loan in full and enjoy strong relationships with all of our remaining creditors.

The new management team has negotiated a settlement with the ASC and the revocation of a portion of the cease trade order issued September 5, 2002 that enhances our ability to conduct business. We have applied to the applicable securities commissions, including the ASC, to have the cease trade order lifted, and are confident that this will occur in the near future.

During the past year, we have resolved a number of the many lawsuits facing the Company. Litigation against former auditors and former executives of the Company continues. Under the circumstances, many shareholders have made inquiries regarding the status of this litigation. While our legal counsel has advised us that we should not comment publicly on these issues, we believe that our claims are valid and we are committed to seeing them through to resolution.

FINANCIAL RESULTS

Revenue for the year ended September 30, 2003 was $30.2 million compared to $43.4 million for the previous fiscal year. Cash utilized by operations amounted to $8.9 million compared to $1.2 million in fiscal 2002. The net loss for the year is still significant at $18.9 million, or $0.32 per share. More than two-thirds ($13.1 million) was due to depreciation, amortization and write-downs net of gains on disposition.

FUTURE OPTIONS

Management's continued efforts in restructuring Proprietary's balance sheet to bring overhead and debt to levels commensurate with its asset base will be a key determinant of the Company's long-term viability. In parallel with these efforts, the Board of Directors has instructed management to explore other strategic options to maximize shareholder value. We will formulate and consider these options in the new year.

Shareholders must realize that while much has been achieved, the Company has serious issues to resolve before it can normalize operations. The risks remain high on the legal, financial and regulatory front due to the commitments and actions undertaken by previous management. The erosion of asset value and the inability of shareholders to trade the Company's stock is the culmination of these historical events and the Company's failure to file adequate audited financial statements. The audited statements that are provided with this annual report are the first reliable and fully audited financial statements to be provided by the Company in the last 5 years.

I look forward to seeing you at the annual meeting.

On behalf of the Board of Directors,

Stephen C. Akerfeldt
Chief Executive Officer

Highlights for 2003

- Addressed impending liquidity crisis which faced the Company during the second quarter
- Realized more than $39 million on sales of assets
- In connection with these sales of assets, reduced debt by more than $36 million, including repayment of a loan at 36% interest obtained in September of 2002, through proceeds from sales of assets
- Prepared audited financial statements for fiscal years 2002 and 2003 in the wake of withdrawn audit opinions for the fiscal years 1998 through 2001
- Settled matters relating to the January 31, 2002 Notice of Hearing issued against the Company by the Alberta Securities Commission (ASC)
- Received partial relief from the cease trade order issued by the ASC on September 5, 2002 through the issuance of a new cease trade order that places fewer restrictions on the Company's ability to conduct its business (subsequent to year end)

FINANCIAL SUMMARY

	For the twelve months ended September 30,	
($000s except per share amounts)	**2003**	2002
Revenue	**30,228**	43,403
Cash utilized by operations	**(8,869)**	(1,235)
Net loss	**(18,883)**	(81,987)
per share	**(0.32)**	(1.38)
Net current liabilities	**(31,160)**	(82,122)
Total assets	**114,680**	185,129
Long-term debt (net of current portion)	**5,872**	25,472
Shareholders' equity	**24,763**	43,646
Weighted average shares outstanding	**59,835**	59,394
Shares outstanding at period end	**59,835**	59,835

Timeline

FISCAL 2002

August 21, 2002	• Alberta Securities Commission staff and Proprietary request that trading in PPI shares be halted until accurate financial information can be provided to the investing public.
August 28, 2002	• Proprietary acquires remaining 50% of the Eau Claire Market, effectively financed by a $4 million loan from Paragon Capital Corporation obtained on September 9, 2002 carrying interest at up to 3% per month.
August 29, 2002	• Proprietary announces deferral of issuance of its third quarter financial statements pending a thorough analysis of its financial situation.
September 12, 2002	• Mr. Peter White replaces Mr. Rolf Brunner as Chairman of the Board. Mr. Brunner remains a director of the Corporation.
September 20, 2002	• Proprietary's previous auditors, Hudson & Company, advise that audit opinions for the fiscal years ended September 30, 1998 through to 2001 should not be relied upon.

FISCAL 2003

November 4, 2002	• Messrs. Francois de Sainte Marie and Stephen A. Rosenburgh appointed to Board of Directors. Mr. Rolf Brunner resigns from Board.
	• Proprietary announces the execution of a term sheet with Ultrak, Inc. as a means to finance the liquidity crisis. The term sheet provides for the purchase by Ultrak of Cdn$6.6 million of Series "B" preferred shares and a Cdn$3.9 million 12% subordinated debenture with the potential for substantial dilution of existing shareholders. On November 8, 2002, it is announced Ultrak has decided not to proceed with the proposed financing.
December 2, 2002	• Proprietary announces it is seeking measures to enhance shareholder value and will explore all alternatives available to the Corporation.
January 23, 2003	• Following negotiations among certain concerned shareholders and the Company, Proprietary appoints three new directors, Patrick Lavelle, Stephen Akerfeldt and Robert Julien. François de Sainte Marie, Don Holmstrom, Peter Joss, Conrad Kathol and Stephen Rosenburgh resign from the Board.

February 19, 2003	• Proprietary announces the resignations of Charles M. Raymond as interim President and CEO of the Company and Rodney J. Gibson as COO of the Company. Mr. Raymond's responsibilities are assumed by Stephen C. Akerfeldt, Chairman of the Board.
	• Proprietary also announces the engagement of Alliance Pacific Group (APG), a Canadian based merchant banking consulting firm to assist in assessing the Corporation's assets and operations.
February 24, 2003	• Proprietary secures a loan of US$3 million from a major shareholder to assist the Company in meeting its ongoing financial obligations.
March 15, 2003	• Proprietary enters into an agreement with APG under which APG will assist with the management of the Corporation for a term of 18 months and will provide the services of Graham Garner as Executive Vice President of the Corporation.
May 23, 2003	• Proprietary completes the sale of its minority interests in The Lodge at Kananaskis LP and the Mountain Inn at Ribbon Creek LP for aggregate proceeds of $4.7 million.
	• Proprietary repays $2 million of the $4 million high interest rate loan from Paragon Capital.
May 29, 2003	• Proprietary releases its consolidated financial statements for the year ended September 30, 2002.
	• Proprietary sells 14,057,500 common shares of Invader Exploration Inc., at $0.11 per share for aggregate proceeds of $1.55 million and agrees to an option to sell its remaining shares at the same price over the next year.
	• Proprietary completes sale of the Polo Club apartments for aggregate proceeds (assumption of debt) of $23.5 million.
May 30, 2003	• Proprietary completes sale of its Musqueam golf facility for aggregate proceeds of $5 million.
June 3, 2003	• Proprietary announces the resignation of Grant E. Sardachuk as a director of the Corporation.
	• Proprietary closes its U.S. office and transfers all corporate functions to its Calgary office.
June 18, 2003	• The new management team and the election of Stephen Akerfeldt, Patrick Lavelle and Robert Julien as directors of the Corporation are supported at the Company's Annual General and Special Meeting.
July 23, 2003	• Proprietary enters into a Support Agreement with Parkbridge LP pursuant to which Parkbridge agrees to make a $2.00 per share cash offer to all shareholders of Canadian Rocky Mountain Properties Inc.
July 28, 2003	• Proprietary completes sale of its Vaughan golf facility for aggregate proceeds of $4.45 million.

August 6, 2003	•	Propriety releases consolidated financial statements for the quarters ended December 31, 2002 and March 31, 2003.
September 4, 2003	•	Proprietary releases its consolidated financial statements for the quarter ended June 30, 2003.
	•	Proprietary enters into an agreement to sell the Eau Claire Festival Market subject to due diligence and certain conditions.
September 11, 2003	•	The Alberta Securities Commission approves a settlement agreement with Proprietary, resulting in a settlement payment to the ASC of $125,000.

SUBSEQUENT TO YEAR END

October 3, 2003	•	Without the knowledge of Proprietary, American Home Capital Corporation (AHCC) purports to sell TCS Mortgage Inc. to a company controlled by officers of TCS. Proprietary subsequently files a statement of claim against an officer and a director of AHCC.
October 6, 2003	•	Proprietary tenders its shares in Canadian Rocky Mountain Properties Inc. to the Parkbridge takeover bid for aggregate proceeds of $6 million.
October 27, 2003	•	Proprietary files a statement of claim against its former auditors, Hudson and Company, related to Hudson's audits of the Corporation's fiscal 1998, 1999, 2000 and 2001 financial statements.
November 1, 2003	•	Proprietary completes sale of Strayhorse at Arrowhead Ranch apartments for aggregate proceeds of $13.1 million (including debt assumption of $12.4 million).
November 13, 2003	•	Proprietary completes sale of its Markham golf facility for aggregate proceeds of $2.8 million.
	•	Proprietary enters into a non-binding agreement to divest its remaining Eagle Quest Golf Centers.
November 25, 2003	•	The Alberta Securities Commission replaces the cease trade order issued September 5, 2002 with a new cease trade order that places fewer restrictions on the Corporation's ability to conduct business.
December 18, 2003	•	Proprietary completes sale of Eagle Quest Golf Centres Inc. for gross proceeds of $8.2 million, but retains ownership of Eagle Quest's Thunder Bay facility.
December 19, 2003	•	Proprietary repays the remaining $2 million due to Paragon Capital pursuant to the high interest rate loan as well as US $1.75 million of shareholder loans.

Operations Review

ASSETS DIVESTED IN 2003

ASSETS AND OWNERSHIP (IF NOT DIRECTLY OWNED) AS AT OCT 1, 2002	DESCRIPTION	TRANSACTION
Canadian Rocky Mountain Properties Inc. 1.8 million common shares, representing 63.3% of share capital and 1.25 million preferred shares, representing all preferred shares (76% on a fully diluted basis)	• three mobile home parks and a strip mall • assets included note receivable from Proprietary of approximately $2 million for unauthorized advances made in 2000 – 2002	• tendered shares to takeover bid by Parkbridge LP in October 2003 for aggregate cash proceeds of $6 million, realizing a gain of $5.2 million.
Eagle Quest Golf Centres Inc.	• golf management company with five locations in B.C., two in Alberta and three in Ontario • financing of $10.4 million placed in special loans by Bank of Montreal in 2003	• sold Musqueam Golf Centre in June 2003 for aggregate proceeds of $5 million, realizing a gain of $0.7 million • sold Vaughan facility in July 2003 for $4.45 million, realizing a gain of $1.2 million • sold Markham facility in November 2003 for aggregate proceeds of $2.8 million • sold remainder of business, excluding Thunder Bay facility, in December 2003 for aggregate proceeds of $8.2 million
Lodge at Kananaskis **Mountain Inn LP at Ribbon Creek** **Mayfield Suites LP**	• LP units in hotel limited partnerships	• sold in May for aggregate proceeds of $4.7 million, realizing a gain of approximately $44,000 and resolving extensive and costly litigation
Lodge at Waterton Lakes	• hotel	• in receivership
University Polo Club	• apartment complex in Arizona	• sold in May 2003 to the mortgage holder for aggregate proceeds (assumption of debt) of $23 million, realizing a loss of $1.2 million
Strayhorse at Arrowhead Ranch	• apartment complex in Arizona	• sold in November 2003 to the previous owner, resolving potential litigation concerning the Company's failure to pay the full purchase price
Invader Exploration Inc. 16 million common shares, representing 47% of share capital	• oil and gas exploration	• sold 14,057,500 shares at $0.11 per share (88% of interest) for $1.5 million, realizing a gain of $0.5 million • option to sell remaining shares at the same price over the next year

CURRENT HOLDINGS

REAL ESTATE AND RENTAL

40 Acres at Willow Creek	• Real estate located in High River, Alberta.
Bancroft Land	• Strip plaza, 16 acres of commercial development land, 30 acres of residential development land and nine condominium townhouses in the town of Bancroft, Ontario.
Buckeye / Queen Creek	• First mortgage on a real estate projects near Phoenix, Arizona.
Eau Claire Festival Market	• Mixed-use real estate property located in downtown Calgary featuring retail shops, restaurants, offices and entertainment. Sale pending.
Florida (Gardner) Loan	• First mortgage on a 204,000 sq. ft. development parcel on Flagler Drive in West Palm Beach. It is proposed the property will be the site of a retirement community.
IMAX Theatre	• Large screen theatre, located in the Eau Claire Market that caters to consumers and businesses.
Kananaskis Mountain Lodge	• 90-room hotel located in Alberta's Kananaskis Valley. This facility features conference rooms, restaurant, pub, fitness centre and spa.
Kananaskis Staff Duplexes	• Residential units for staff of The Kananaskis Mountain Lodge.
Kananaskis Staff Residence B	• Residential units for hotel and ski resort staff from Kananaskis Valley.
McGinty Landing	• Real estate development and condos in Kimberly, BC. Proprietary owns seven condominiums.
Phoenix Capital Inc.	• Acquirer of income-generating real estate assets. Purchases property units from individuals involved in limited partnerships or syndications. Through carefully structured offers, Phoenix Capital gives those individual unit-holders a unique opportunity to sell or liquidate their holdings while enabling Phoenix to earn an appreciable return from assets acquired. Propriety owns 471,000 shares, representing 9.9% of Phoenix Capital's issued and outstanding share capital.
Qualicum Heritage Inn	• Historic 70-room hotel located on Vancouver Island, British Columbia, featuring conference facilities, restaurant and pub. This location overlooks the waterfront, offering land and water activities to visitors.
Springbank Airport	• Office building and excess land at small air terminal located just outside of Calgary.

NATURAL RESOURCES

Invader Exploration Inc.	• Oil and gas company involved in exploration and development in Western Canada. Proprietary owns 1,999,500 shares representing approximately 4.1% of Invader's share capital, subject to a put/call agreement.
Lamplighter Energy Ltd.	• Oil and gas company involved in exploration and development of shallow oil and gas reserves in Alberta. Proprietary owns 130,416 shares representing 3.6% of Lamplighter Energy's issued and outstanding share capital. Lamplighter Energy trades on the TSX Venture Exchange under the symbol LL.
Newmex Minerals Inc.	• Owner of a 1,000-acre goldmine on Vancouver Island, and approximately 3.8 million shares of Golden Phoenix Minerals Inc. Proprietary owns 2,755,345 shares representing 57% of Newmex Minerals' issued and outstanding share capital. Newmex Minerals trades on the TSX Venture Exchange under the symbol NMM. Golden Phoenix Minerals trades on the OTCBB under the symbol GPXM.
Coalbed Methane	• Proprietary owns interests in approximately 50,000 acres of leases of possible coal bed methane deposits.

OTHER ASSETS

AirIQ Inc.	• Wireless Internet applications service provider specializing in Telematics (information and control messages sent via wireless to and from vehicles). Proprietary owns 1,631,260 shares representing 2.8% of AirIQ's issued and outstanding share capital.
ComSite AG Inc.	• Rights in wireless telephone antenna sites acquired as a result of defaulted loan. Rights are currently being sold under a commission agreement with Spider Consulting GmbH.
Montevina Estate Homes	• Second mortgage on three housing lots under development near Phoenix, Arizona.
TCS Mortgage Inc.	• Mortgage banker and broker with offices in San Diego, CA and Las Vegas, NV.
Willow Creek Homes Inc.	• Builder of residential and commercial structures. Builds in a factory setting and then transports structures to the building site for placement on a permanent foundation.

Management Discussion and Analysis

FOR THE YEAR ENDED SEPTEMBER 30, 2003

Proprietary remains a company in transition and it is beset with a number of problems that are primarily the result of a breakdown in corporate governance and fiduciary behavior on the part of previous management. In 2001, the Company's financial reporting and the activities of certain of its former executive officers came under investigation by the Alberta Securities Commission ("ASC"). While matters between the Company and the ASC were settled on September 10, 2003, the ASC is proceeding with hearings concerning two former officers. As a result of various matters, including the investigations and additional allegations brought by the ASC, the former Chief Executive Officer, Mr. Peter Workum and the former Chief Financial Officer, Mr. Theodor Hennig were terminated in August of 2002 by the then current directors. Also in August of 2002, Mr. Charles Raymond, a director at the time, was appointed Chief Executive Officer, Mr. Rodney Gibson was appointed Chief Operating Officer and Mr. Donald Holmstrom was appointed Chief Financial Officer on an interim basis. In October 2002, Mr. Glenn McCowan replaced Mr. Holmstrom as Chief Financial Officer.

In January 2003 the Board of Directors of the Company was changed considerably as a result of a request from concerned shareholders. In connection with that change, Mr. Raymond resigned as Chief Executive Officer and Mr. Gibson resigned as Chief Operating Officer. Mr. Raymond was replaced as CEO by Mr. Stephen Akerfeldt who also became Chairman of the Board. At that time the Company also engaged a restructuring team to help manage the asset portfolio and significant liquidity issues it was facing. In April of 2003 Mr. Graham Garner became Executive Vice-President.

The attached consolidated financial statements have been prepared by a management team and Board of Directors that were only in place during a portion of the periods being presented. They were not in place at the 2002 year-end nor during the first quarter of 2003. The Company has also experienced further turnover in staff which has made obtaining information related to operating activities extremely difficult.

Proprietary has operated as a merchant bank, investing in business operations in order to generate a return on investment from cash flows of undervalued businesses and the investment of capital in other merchant banking areas. Activities of this nature have a high degree of risk concerning the assessment of relative values of assets, the ability to operate and manage businesses to generate positive cash flows or resale, and the quality of the security obtained to support financial investments. Success is not guaranteed.

OPERATING RESULTS

Proprietary had a net loss of $18,882,712 for the year ended September 30, 2003 compared to a net loss of $81,986,549 for the year ended September 30, 2002. This resulted in losses per share of $0.32 versus a loss of $1.38 per share in 2002. The loss for the year ended September 30, 2003 includes $5,116,374 of losses attributable to discontinued operations versus losses of $7,875,098 from these discontinued operations for the year ended September 30, 2002.

CONSTRUCTION

Construction revenue generated by Willow Creek Homes Inc.'s ("Willow Creek") modular home construction operations decreased to $1,777,896 in fiscal 2003 from $1,972,962 in 2002. Revenue for the year declined because the stronger Canadian dollar reduced Willow Creek's competitiveness in the northwestern United States market. As a result, operating profits of Willow Creek declined from $632,652 in 2002 to $270,277 in 2003. Other construction operations in the United States (comprising 2002 revenues of $3.1 million) were terminated in fiscal 2002 due to the termination of Mr. Workum and the discontinuance of the working relationship with The Creative Classics Company.

REAL ESTATE RENTAL

In addition to the Eau Claire Festival Market ("Eau Claire"), a 200,000 square foot mixed use facility in downtown Calgary, the Company's real estate segment also previously included two apartment complexes in Phoenix, Arizona, (Strayhorse at Arrowhead Ranch and the University Polo Club). The Company also held a 76% interest (on a fully diluted basis) in Canadian Rocky Mountain Properties Inc. ("CMP"), which owned three mobile home parks in Alberta (one having been closed due to inadequate returns) and Central City Business Park, a 37,000 square foot commercial strip mall in Kelowna, B.C. As a result of divestitures during the year or subsequent to year end, the Phoenix apartment complexes and CMP operations have been disclosed as discontinued operations for both years and are discussed in the Discontinued Operations section.

Revenues for the year ended September 30, 2003 from real estate rentals were approximately $7.7 million compared to $2.9 million in the prior year. This increase was due to the Eau Claire property being acquired in two stages, March and August of 2002, and thus not reflecting a full year of operations in 2002. Net earnings in 2003, prior to write-downs and discontinued operations, were $384,000 in 2003 versus comparable net earnings of $1,519,450 in 2002. This decrease was primarily due to increased vacancies in Eau Claire and increased expenses from bad debts. Write-downs in the segment were $1,300,000 in 2003 compared to $11,352,731 in 2002.

RESOURCE

The Company's resource segment previously consisted of its 45% interest in Invader Exploration Inc. ("Invader"), and its 53% interest in Newmex Minerals Inc. ("Newmex"). As a result of the divestiture of Invader during the year, it has been disclosed as discontinued operations. The Company has advised Newmex that it no longer wishes to support its operations and is seeking repayment of previous advances made to Newmex. Newmex's assets consist of approximately 3.8 million shares of Golden Phoenix Minerals Inc., which are being disposed of in an orderly manner to meet Newmex's obligations, and a gold mining property on Vancouver Island. Newmex is seeking a purchaser for its gold property. Newmex's operating costs have been reduced to a minimal level during this period.

FINANCE

The Company's finance operations are conducted through its U.S. subsidiary, American Home Capital Corporation ("AHCC"). AHCC is a mortgage banker and broker loaning funds through its two subsidiaries, Swiss Asset Management, Inc. and TCS Mortgage, Inc. ("TCS"). Finance revenue for the year ended September 30, 2003 was $10,297,825 versus $21,926,305 in the prior year. The 2003 revenues were generated almost entirely by TCS through its mortgage reselling business in California. TCS generated revenues of US$7.0 million in 2003 versus US$4.7 million in 2002. TCS contributed net earnings of US$100,917 in 2003 versus US$251,493 in 2002. The decrease in net earnings was due to the loss provision on a related party loan (please see note 4 of the consolidated financial statements). The majority of the Company's other financing instruments were not performing at September 30, 2003; therefore no interest revenue was reported on these instruments during the period. On October 7, 2003, TCS was purportedly sold to TCS Acquisitions LLC, a company controlled by officers of TCS, without the knowledge of Proprietary. The Company believes that this transaction was improper and has filed a claim in Nevada in this regard (please see note 29 of the consolidated financial statements).

AUTOMOTIVE

The Company's automotive operations consisted of its rally sport racing sales and service business. As the Company disposed of a rental car business after selling vehicles to satisfy the debt obligations of the rental fleet, the rental operations have been reclassified to discontinued operations. The assets of the rental car division were transferred by the former management of EnerGCorp in the first quarter of 2003 (please see note 4 of the consolidated financial statements). Proprietary has been unsuccessful to date in obtaining an accounting of the disposition of those assets from the former management of EnerGCorp and intends to commence legal action. The racing and sales operations were in Phoenix, Arizona and serviced vehicles racing in the U.S. rally circuit including providing sales and service to the United States Air Force Reserve sponsored Ford SVT Focus. The rally sport business was shut down subsequent to year end and the Company has realized on these assets.

Revenue for the automotive segment totalled approximately $1.7 million for the year ended September 30, 2003 versus $4.0 million in 2002. The segment operating loss, including discontinued operations, for the year ended September 30, 2003 was $1.7 million including a provision for the non-collection of the balance of the proceeds from the disposition of the rental operation. The previous year's segment loss of approximately $6.2 million included write-downs of $2.0 million and expenses of other unsuccessful automotive ventures.

RESORTS AND RECREATION

Proprietary's resorts and recreation segment consisted of the Eagle Quest Golf Centers Inc. ("Eagle Quest") golf courses and training centres, the IMAX theatre at the Eau Claire Market, and its three resort properties, one at Kananaskis, Alberta ("Kananaskis"), one at Qualicum Beach on Vancouver Island and one at Waterton Lakes, Alberta. The Company also owned interests in The Lodge at Kananaskis LP and The Mountain Inn at Ribbon Creek LP as discussed in the corporate and other segment. The Lodge at Waterton Lakes ("Waterton") was placed in receivership on November 29, 2002 due to being unable to refinance the mortgage and inadequate returns. As a result of the ongoing divestiture of Eagle Quest and its properties, Eagle Quest has been disclosed as discontinued operations.

Revenue from the operations of the resorts properties was $7.9 million in 2003 versus $9.5 million in 2002. The reduction in revenues from Waterton was partially offset by increased revenues generated by a full year of revenues at IMAX. The segment had a net loss before discontinued operations for 2003 of $830,144 compared to a loss of $15,880,769 in 2002 which was mainly due to $13.4 million in write-downs recorded in 2002.

CORPORATE AND OTHER

The revenue generated from the corporate and other segment is mainly in the form of gains/losses from disposing of investments. During the year ended September 30, 2003 the Company realized gains on disposing its interest in the Kananaskis and Mayfield Suites Limited Partnerships, Viceroy Resources Inc., and Rally Energy Inc. shares. These gains were offset by losses in disposing of a property in Arizona that the Company had acquired when foreclosing on a note and some of its shares held in Air IQ, formerly E-Dispatch. In May of 2003, the Company sold its interest in The Lodge at Kananaskis LP and The Mountain Inn at Ribbon Creek LP for aggregate proceeds of $4.6 million. This resulted in a gain of $44,134 in 2003, after having recorded a write-down provision on the investment in 2002 of $3,860,104. Segment net loss for the year was $11.5 million versus $27.2 million in 2002. Corporate overhead continued to be a significant cost to the Company due to high professional and other fees required to manage the litigation and other contingent matters impacting the Company. It is management's intention to significantly reduce corporate overhead costs in 2004.

Corporate interest expenses decreased from $841,023 in 2002 to $114,192 in 2003. This increase resulted from the high interest rate indebtedness owed to Paragon Capital Corporation Ltd. that the former management of Proprietary entered into during the fourth Quarter of 2002. Current management utilized $2.7 million of the proceeds from the sale of the Kananaskis/Mayfield Limited Partnership units to partially pay down the debt. Management was also able to renegotiate a 6% per annum reduction in the interest rate on the note and refinance the $2.0 million balance for a further term. Corporate interest expenses are expected to be reduced significantly as debt continues to be retired.

DISCONTINUED OPERATIONS

During the year ended September 30, 2003 the Company disposed of the University Polo Club apartment complex, which was acquired in December 2001, for gross proceeds of US$16.9 million by way of assumption of the mortgage and accrued interest on the property which had been accruing since the property was placed under creditor protection in April 2002. The Company realized a loss on the sale of the property in the amount of $1,181,561. This loss was directly the result of the strengthening of the Canadian dollar resulting in the Canadian equivalent of the U.S. based proceeds, entirely comprising of the indebtedness owed on the property, being less than the Canadian dollar historical carrying value of the property. Revenues from the Polo Club in 2003, reported in discontinued operations, of $2,129,582 remained relatively unchanged from the $2,253,636 generated in 2002 due to reduced vacancies offset by the stronger Canadian dollar. Net losses before loss on disposal from the Polo Club declined in 2003 as the Company wrote down the carrying value of the property in 2002 by $901,118 with no comparative write-down in 2003. The strengthening of the Canadian dollar offset the increase in operating expenses that occurred in 2003.

Subsequent to September 30, 2003, the Company disposed of its shares in Pebble Beach Apartments Inc. for gross proceeds of approximately US $9.7 million including indebtedness owing by the company of US$9.1 million. The sole asset of Pebble Beach was the Strayhorse at Arrowhead Ranch Apartment ("Strayhorse"). The Company realized a loss, to be reflected in the first quarter of 2004, on the sale of the property in the amount of $543,269. This loss was directly the result of the strengthening of the Canadian dollar resulting in the Canadian equivalent of the U.S. based proceeds being less than the Canadian dollar historical carrying value of the property. Revenues generated in 2003 by Strayhorse, reported in discontinued operations, were $1,729,032 versus $1,998,534 in 2002. Net losses in 2003 from the property decreased to $832,235 from $2,361,050 in 2002. This was primarily due to a write-down in 2002 of $2,227,721 resulting from an impairment in value with no comparable write-off in 2003. The strengthening Canadian dollar resulted from the decrease in revenues and operating expenses as the complex was fully occupied throughout both years.

On October 6, 2003, the Company disposed of all of its shares of CMP by tendering them to an all cash take-over bid. The disposition of the Company's interest in CMP resulted in a gain of approximately $5.2 million, to be reflected in the first quarter of 2004. The operations of CMP accounted for approximately $3.4 million of the revenue reported in discontinued operations for the year ended September 30, 2003 compared to $3.3 million in 2002. This contributed net earnings to the Company for the year ended September 30, 2003 of $106,822 versus a loss of $78,418 in 2002. Operating expenses, including interest and depreciation, remained relatively unchanged in both years at approximately $2.9 million.

The Company disposed of 88% of its investment in Invader in June 2003 for gross proceeds of approximately $1.5 million. At the time of disposition the Company carried Invader assets at approximately $4.4 million and liabilities and non-controlling interest of Invader accounted for $4.1 million. After deducting costs of disposition, this resulted in a gain on disposition to the Company of approximately $0.5 million. Invader's revenues during 2003 to the date of disposition were $709,666 versus $794,651 for the year ended September 30, 2002. Net earnings before the gain on disposition were $142,369 for the respective period in 2003 versus a loss of $3,049,682 in 2002. The 2002 loss included a write-down of $3,080,145.

Eagle Quest completed the following dispositions in fiscal 2003: the Musqueam facility for aggregate proceeds of approximately $5 million in May 2003 and the Vaughan facility for aggregate proceeds of $4.45 million in August 2003, utilizing the proceeds to pay down Eagle Quest's long-term debt. These transactions accounted for gains of approximately $1.9 million, net of disposition costs. Eagle Quest's revenue was approximately $12.2 million in 2003 compared to $12.4 million in 2002. Net losses for Eagle Quest for 2003, after providing for a $2.0 million write-down in the carrying value of the remaining facilities disposed of in December of 2003, was $3.3 million versus $0.5 million in 2002. The increase was due to increased general and administrative expenses at Eagle Quest.

Subsequent to the year end, Eagle Quest disposed of the Markham facility for aggregate proceeds of $2.8 million and in December of 2003, the Company disposed of its shares in the parent of Eagle Quest for aggregate proceeds of $8.2 million, but retained the Thunder Bay facility.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

As the Company has significant near-term repayment obligations related to certain banking arrangements and has certain debt owing at onerous interest rates, management continues to be focused on renegotiating and paying down debt. In May of 2003, the Company paid $2.7 million due to Paragon Capital Corporation leaving $2.0 million outstanding. Also in May, the Company utilized $4.0 million of the Musqueam proceeds to pay-down the Eagle Quest debt and with the proceeds of the sale of the University Polo Club extinguished $23.5 million of indebtedness associated with the property. The Company further reduced the Eagle Quest indebtedness by approximately $4.2 million from the sale of Eagle Quest's Vaughan facilities. The Company borrowed US$3.0 million in February 2003 which it has been utilizing for general working capital purposes. As a result of these sales and general operations, the Company has reduced its indebtedness obligations by approximately $36 million during the year ended September 30, 2003. The Company enjoys strong relationships with its existing creditors and expects to continue to restructure its balance sheet during the current year through the rationalization of assets and the pay-down of debt.

At September 30, 2003 the Company had approximately $4.8 million of cash available. A significant portion of this has been utilized to meet ongoing obligations including the significant professional costs being incurred by the Company, related to restructuring, divestitures, litigation and the resolution of regulatory issues. Several of the Company's conventional lenders have requested repayment of their indebtedness. The Company has been able to renew or defer a number of debts which have come up for renewal or have had related requests for pay-downs. In some instances, the Company has had to divest of assets to deal with those debts which could not be deferred any longer. The Company has been reviewing all of its assets to determine candidates for rationalization. As a result, the Company believes it will be able to realize on assets in short order in a manner

which will maximize shareholder value. It is management's view that this maximization process involves the divestiture of assets at values which approximate their greatest potential current value, net of significant ongoing cash expenditure requirements associated with these assets, along with repaying indebtedness that carries interest rates in excess of the internal rates of return that could be reasonably generated from the assets being disposed of.

FUTURE PLANS

With respect to operations, the majority of the Company's operating assets do not generate significant cash flow beyond what is required to service related debt. Notwithstanding these operational issues, many of these assets have significant equity value.

Overhead costs, including professional fees, and corporate debt continue to erode the Company's equity value. Accordingly it is management's intention to continue to pursue its current strategy of

i) reducing corporate overhead and

ii) converting underperforming assets into cash to reduce corporate and long-term debt.

This strategy should ultimately result in the elimination of all corporate debt and a restructured balance sheet reflecting a positive cash position. This process will also provide the Company with the resources to continue its investigation of suspect historical transactions and invest in the existing litigation against former officers and directors, which should result in eventual cash proceeds to the company.

With the filing of its 2003 financial statements, the Company has now filed a full cycle of audited financial statements — a major accomplishment for current management, and the result of the significant efforts of our CFO, auditors and audit committee. On September 10, 2003, the Company reached a settlement with the ASC with respect to matters related to the Notice of Hearing issued on January 31, 2002. The Company has made applications to the securities commissions in five Canadian provinces, to request the lifting of the cease trade orders which have been issued in each jurisdiction. Upon lifting of these cease trade orders, we anticipate that the Toronto Stock Exchange will permit the common shares to trade again.

With the issuance of these audited financial statements, management sees no barrier to the lifting of the cease trade order, and will submit an additional request to the Alberta Securities Commission to proceed with dispatch in the interest of minority shareholders.

The management of Proprietary has been instructed to investigate and review strategic alternatives for maximization of shareholder value reflective of the current status of the Company. It is anticipated that the Company will be in a position to act on these alternatives in 2004.

Management's Responsibility for Financial Reporting

TO THE SHAREHOLDERS OF PROPRIETARY INDUSTRIES INC.

The accompanying financial statements of the Company have been prepared by management utilizing the information available to it. Management cautions the reader to pay particular attention to the limited scope of the Auditor's opinion and the reasons therefore as described in Notes 1, 2 and 25 of the consolidated financial statements. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and within the framework of the summary of significant accounting policies in these financial statements. Management is responsible for all information in the annual report, however the reader is cautioned that inaccuracies may exist regarding the reporting period of transactions and write-downs and the completeness of such reporting. All financial and operating data in the annual report is consistent, where appropriate, with that contained in the financial statements and within the knowledge of management.

A system of internal accounting control is now being maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Executive and Audit Committees of the Board of Directors has met with the Company's independent auditors to review the scope and results of their annual audit and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

The consolidated balance sheets as at September 30, 2003 and 2002 and the consolidated statements of earnings, deficit and cash flows for the year ended September 30, 2003 have been audited on behalf of the shareholders by the Company's independent auditors, Mintz & Partners LLP, in accordance with Canadian generally accepted auditing standards. The consolidated statements of earnings and deficit and cash flows for the year ended September 30, 2002 have not been audited. The auditors' report outlines the scope of their actual audit and their opinion on the financial statements. The audit opinions previously given by Hudson & Company LLP on the 1998, 1999, 2000 and 2001 consolidated financials were withdrawn.

"Signed"
Stephen C. Akerfeldt
Chief Executive Officer

"Signed"
Glenn F. McCowan
Chief Financial Officer

Auditors' Report

TO THE SHAREHOLDERS OF PROPRIETARY INDUSTRIES INC.

We have audited the consolidated balance sheets of Proprietary Industries Inc. as at September 30, 2003 and 2002 and the consolidated statements of earnings, deficit and cash flows for the year ended September 30, 2003. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether these financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the presentation of overall financial statement presentation.

As described in Note 2 to the consolidated financial statements, the consolidated financial statements as at September 30, 2001 and for the year then ended, and as at September 30, 2000, 1999 and 1998, and for years then ended, are unaudited as a result of previous auditors withdrawing their previously issued unqualified opinions on September 20, 2002. It was not practical for us to verify by any means the recorded values of any assets or liabilities or the completeness of disclosures required under Canadian generally accepted accounting principles as at September 30, 2001. As the recorded values of assets and liabilities at September 30, 2001 enter into the determination of results of operations, deficit and cash flows for the year ended September 30, 2002, we are unable to determine whether the attached consolidated statements of earnings, deficit and cash flows present fairly the results of operations, deficit and cash flows for the year ended September 30, 2002.

In view of the possible material effects on the consolidated financial statements of the matters described in the preceding paragraph, we are unable to express an opinion whether the consolidated statement of earnings, deficit and cash flows for the year ended September 30, 2002 are presented fairly in accordance with Canadian generally accepted accounting principles.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Proprietary Industries Inc. as at September 30, 2003 and 2002 and the results of its operations and its cash flows for the year ended September 30, 2003 in accordance with Canadian generally accepted accounting principles.

Mintz & Partners LLP

CHARTERED ACCOUNTANTS
Toronto, Ontario
December 17, 2003

Consolidated Balance Sheets

As at September 30	2003	2002
Assets		(Audited)
Current		
Cash and short-term deposits	**$ 4,843,425**	$ 8,228,858
Mortgage loans held for resale	**3,017,691**	9,285,646
Short-term investments	**1,091,889**	467,680
Accounts receivable	**1,085,171**	1,655,944
Notes receivable - current (Note 6)	–	4,169,312
Due from related parties (Note 4)	–	453,801
Inventories (Note 9)	**919,033**	2,410,419
Prepaid expenses and deposits	**800,762**	1,771,042
Assets held for disposal by sale (Note 17)	**38,373,526**	–
	50,131,497	28,442,702
Notes receivable (Note 6)	**16,584,092**	18,586,332
Restricted cash deposits (Note 7)	**895,797**	482,244
Land development costs (Note 10)	**637,616**	693,442
Property, plant and equipment (Note 11)	**42,234,973**	125,721,537
Investments (Note 12)	**1,233,827**	7,599,930
Other assets (Note 13)	**77,006**	3,602,920
Assets held for disposal by other than sale (Note 16)	**2,885,532**	–
	$ 114,680,340	$ 185,129,107
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 10,448,511**	$ 13,841,068
Bank indebtedness (Note 14)	**2,504,689**	10,252,730
Notes payable (Note 15)	**3,991,351**	10,424,647
Due to related parties (Note 4)	**4,844,196**	–
Customer deposits	**504,979**	857,780
Income taxes payable	**853,568**	346,111
Current portion of long-term debt (Note 18)	**30,361,281**	74,200,542
Deferred revenue	**731,480**	641,711
Obligations related to assets held for disposal by sale (Note 17)	**27,051,164**	–
	81,291,219	110,564,589
Obligations related to assets held for disposal by other than sale (Note 16)	**5,862,241**	–
Long-term debt (Note 18)	**10,669**	25,471,631
Future income taxes (Note 21)	**368,992**	356,512
Non-controlling interest in subsidiaries	**2,384,061**	5,090,505
	89,917,182	141,483,237
Shareholders' Equity		
Share capital (Note 19)	**142,319,358**	142,319,358
Contributed surplus (Note 28)	**15,530,208**	15,530,208
Deficit	**(133,086,408)**	(114,203,696)
	24,763,158	43,645,870
	$ 114,680,340	$ 185,129,107

Litigation and Contingencies (See Note 24)

Approved (see Note 2) on behalf of the Board

"Signed"
Stephen C. Akerfeldt, Director

"Signed"
Patrick J. Lavelle, Director

Consolidated Statements of Earnings and Deficit

For the years ended September 30	2003	2002 (Unaudited, See Note 2) (Restated – See Note 20)
Revenue		
Construction	**$ 1,777,841**	$ 6,026,258
Rental	**7,763,018**	2,511,798
Finance	**10,021,253**	13,306,070
Resorts and recreation	**7,964,005**	9,687,558
Automotive	**1,657,322**	3,188,634
Interest	**816**	1,565,523
Gain on sale of assets	**338,732**	1,363,481
Investment and other	**705,051**	5,755,700
	30,228,038	43,403,022
Expenses		
Construction	**1,191,939**	6,063,383
Rental	**3,793,505**	1,278,777
Resource	**55,513**	–
Finance	**6,654,613**	4,936,875
Resorts and recreation	**4,588,836**	8,310,301
Automotive	**1,717,580**	3,295,131
General and administrative	**13,270,949**	17,053,593
Depletion and amortization	**2,740,438**	2,690,211
Interest on long-term debt	**2,818,099**	3,777,230
Interest on short-term borrowings	**1,484,795**	688,054
Write-downs (Note 26)	**5,607,317**	70,695,616
	43,923,584	118,789,171
Loss before income taxes and non-controlling interest and discontinued operations	**(13,695,546)**	(75,386,149)
Income taxes (recovered) (Note 21)		
Current	**75,363**	(72,969)
Future	**–**	(915,260)
	75,363	(988,229)
Non-controlling interest in subsidiaries	**(4,571)**	(286,469)
	70,792	(1,274,698)
Net loss for the year from continuing operations	**(13,766,338)**	(74,111,451)
Discontinued operations net of income taxes (Note 20)	**(5,116,374)**	(7,875,098)
Net loss for the year	**(18,882,712)**	(81,986,549)
Deficit, beginning of year (Note 25)	**(114,203,696)**	(32,217,147)
Deficit, end of year	**$ (133,086,408)**	$ (114,203,696)
Loss per share	**$ (0.32)**	$ (1.38)
Loss per share from continuing operations	**$ (0.23)**	$ (1.25)

Consolidated Statements of Cash Flows

For the years ended September 30	2003	2002
		(Unaudited, See Note 2)
Cash flows provided by (used in)		
Operating activities		
Net loss	**$ (18,882,712)**	$ (81,986,549)
Items not involving cash		
Depletion and amortization	**5,303,459**	7,269,463
Future income taxes recovered	**12,480**	(851,772)
Gain on sale of assets and investments	**(1,352,546)**	(1,335,663)
Write-downs	**7,607,317**	75,163,192
Non-controlling interests	**231,067**	(1,656,517)
Non-cash compensation expense (Note 19)	**–**	817,551
Interest capitalized to debt	**1,196,800**	–
Foreign exchange loss (gain)	**(992,325)**	–
	(6,876,460)	(2,580,295)
Changes in non-cash operating balances (Note 27)	**(1,993,102)**	1,345,107
	(8,869,562)	(1,235,188)
Financing activities		
Advances to related parties	**–**	(6,033,806)
Increase (decrease) in long-term debt, net	**(10,673,470)**	10,517,060
Issue of common shares, net	**–**	4,171,889
Repurchase of common shares for cash	**–**	(1,894,965)
Issue of common shares by subsidiary	**87,686**	–
Financing costs incurred	**–**	(285,921)
Borrowings from (repayments to) related parties	**4,629,000**	(4,626,935)
Notes payable (repaid)	**(6,134,266)**	1,889,309
	(12,091,050)	3,736,631
Investing activities		
Advances on notes receivable, net	**2,087,529**	(408,043)
Proceeds on sale (acquisition) of investments, net	**6,166,939**	5,259,452
Proceeds on sale of land	**896,718**	2,131,087
Proceeds on disposition of property, plant and equipment	**1,148,998**	–
Additions to property, plant and equipment	**(1,563,121)**	(12,555,964)
Net cash on business dispositions (acquisitions)	**8,838,116**	(4,924,748)
	17,575,179	(10,498,216)
Decrease in cash for the year	**(3,385,433)**	(7,996,773)
Cash, beginning of year	**8,228,858**	**16,225,631**
Cash, end of year	**$ 4,843,425**	$ 8,228,858

The following cash payments have been included in the determination of earnings.		
Interest paid	**$ 8,607,479**	$ 9,457,288
Taxes paid	**$ 55,180**	$ 486,424

Notes to the Consolidated Financial Statements for the Years Ending September 30, 2003 and 2002

(Amounts in respect of transactions during the year ended September 30, 2002 are unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

The accompanying consolidated financial statements of Proprietary Industries Inc. (the "Company") include the financial position, results of operations, and cash flows for the Company and its subsidiaries as indicated below;

Family Golf Acquisitions Inc.	100%
Eagle Quest Golf Centers Inc.	100%
Eagle Quest Golf Operations Inc.	
(formerly Musqueam Recreations Ltd.)	100%
Willow Creek Homes Inc.	100%
N.J.Q. Holdings Limited	100%
Proprietary Developments Ltd.	100%
970322 Ontario Inc.	100%
776910 Ontario Ltd.	100%
322375 Alberta Ltd.	100%
MP Acquisitions Limited	100%
Eau Claire Theatres Inc.	100%
Newmex Minerals Inc	57%
Canadian Rocky Mountain Properties Inc.	76%
W.C.P. Holdings Ltd.	76%
866649 Alberta Ltd.	76%
EnergCorp Acquisitions Inc.	100%
Strategia Corporation	97%
EnerGCorp Inc.	91%
AV Sport Inc.	91%
American Home Capital Corporation	86%
Swiss Asset Management Inc.	86%
TCS Mortgage Inc.	86%
University Polo Club Limited Partnership	91%
Pebble Beach Apartments Inc.	91%

The Company has interests in other companies whose balance sheets and results of operations are not material to the organization, and are not listed above.

During fiscal 2001 the Company's financial statements became the focus of an investigation by the Alberta Securities Commission ("ASC"). As a result of that investigation and further investigation by current management, significant restatements had to be made in prior years' financial statements. During 2003, the Company and the ASC agreed to terms of settlement of matters in respect of the investigation and related charges against the Company. The Company's former Chief Executive Officer, Mr. Peter Workum and former Chief Financial Officer, Mr. Theodor Hennig continue to be the subject of an investigation and hearing by the ASC. This has resulted in the Company incurring a significant level of professional, financing and investigation costs, have many of its conventional lenders demand repayment of their indebtedness, and severely limited its ability to raise capital in either the equity or debt markets. Operations from its subsidiaries have not been able to generate sufficient cash flows to cover the increased expenditures. The Company has been able to obtain debt financing to date including debt support from certain shareholders. These financial statements have been prepared on a going concern basis on the assumption that the Company will be able to continue to reduce expenditure levels and continue to refinance indebtedness as it comes due and continue to receive support from its shareholders. The Company will also dispose of assets to raise cash and satisfy indebtedness in connection with its ongoing operations.

2. UNAUDITED, OPERATIONS AND CASH FLOWS FOR THE YEAR ENDED SEPTEMBER 30, 2002

A) INVESTIGATION

Due to the investigation commenced by the Alberta Securities Commission into the Company's financial reporting and the conduct of Mr. Peter Workum, its former Chief Executive Officer and Mr. Theodor Hennig, its former Chief Financial Officer, the Company's former auditors, Hudson & Company LLP ("Hudson") withdrew their opinions on prior year's financial statements. Current management attempted to cooperate with Hudson in order to facilitate the provision of a new opinion on the financial statements for the year ended September 30, 2001. It was determined, however, that the impact of the restatements was of such significance that this would not only be impractical from a cost and timing viewpoint but potentially impossible to obtain. Management has commenced an action against Hudson.

B) SCOPE OF 2002 AUDIT

As a result of the above, the Company's new auditors, Mintz & Partners LLP ("Mintz"), could not provide an audit opinion on operations and cash flow statements for the year ended September 30, 2002, nor any of the operating amounts in the notes to the financial statements. These amounts were prepared by Management utilizing the information available to it. Management attempted to identify transactions in the appropriate periods. If current management had been in place at the time of preparing the prior year financial statements, it is possible that it would have recorded some of the write-downs in fiscal 2001 that were reflected in fiscal 2002.

C) RESPONSIBILITY OF DIRECTORS AND MANAGEMENT

The Company's current Chief Financial Officer was appointed after the 2002 year-end and after the investigation and withdrawal of audit opinion described in (A) above. Also, the directors who are approving these financial statements on behalf of the Board, were not involved with the Company in any way until January 24, 2003.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION

The financial statements of entities which are controlled by the Company, referred to as subsidiaries, are consolidated; entities which are not controlled and for which the Company has the ability to exercise significant influence over, are accounted for using the equity method. Investments in other entities are accounted for using the cost method.

(B) FOREIGN CURRENCY TRANSLATION

The Company utilizes the temporal method of accounting for foreign currency transactions and financial statements of its subsidiaries. Under the temporal method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rates, except those items carried at market, which are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rate for the period, except for charges related to non-monetary assets which are translated at the historical rate for the asset to which the charge relates. Exchange gains or losses are reflected in net earnings. The Company regularly reviews whether its subsidiaries are self-sustaining or integrated. At September 30, 2002 and 2003 it has determined that its subsidiaries should be reported as integrated.

(C) CASH

Cash and cash equivalents includes cash on hand and short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(D) SHORT-TERM INVESTMENTS

Short-term investments are recorded at the lower of cost or market value. Market value is defined as the trading value at the date of the balance sheet. Shares of public companies are marked to market as portfolio investments.

(E) NOTES RECEIVABLE

The Notes receivable are those held for investment purposes. Short-term notes receivable are those which management expects to be collected within the current fiscal year. When there is other than a temporary decline in value, these investments are written down to provide for the loss.

(F) INVENTORIES

Inventories are valued at the lower of cost and estimated net realizable value with cost being determined on a first-in, first-out basis.

(G) MORTGAGE LOANS HELD FOR SALE

Mortgage loans held for sale are stated at the lower of cost or market in the aggregate. Cost is determined on an individual basis and includes non-refundable fees and direct costs associated with the origination of loans. Market is determined by outstanding commitments and prevailing market prices. Gains represent the difference between the market price and the cost of the loans and are recognized when the loans are sold.

(H) FINANCING COSTS

Certain financing costs associated with obtaining mortgage financing are deferred and included in other assets. The deferred costs are amortized on a straight line basis over the life of the related financing obligation. If conditions change such that the financing obligations original terms are significantly amended, the balance of the deferred financing costs are charged to earnings.

(I) CAPITAL ASSETS

Property, plant and equipment are recorded at the lower of cost or carrying value in the event of impairment. The cost of property disposed of and related accumulated amortization are removed from the accounts at the time of disposition with any resulting gain or loss included in income.

Management regularly reviews the carrying value of each of its capital assets. If, based on each review, any estimate of recoverability through normal cash flows anticipated over the useful life of the asset, determination is made that there is an impairment in net carrying value, such impairment is charged to income in the year such determination is made. Future amortization will be charged based on the post-impairment carrying value.

Amortization is provided for over the estimated useful lives of the assets on the declining balance basis at rates ranging from four to thirty per cent. Leasehold improvements are amortized on a straight-line basis over the life of the related lease. Buildings are amortized on a declining balance basis at the rate of 4% per year.

(J) MINING PROPERTIES

Mining properties include initial property acquisition costs, related property option payments, exploration and development costs and other costs directly related to specific properties. All administration overhead is expensed as incurred. All costs related to the exploration and development of mineral properties are deferred until commencement of commercial production.

When properties are developed to the stage of commercial production, mineral properties and deferred costs will be amortized on a unit-of-production basis over economically recoverable reserves.

Management periodically reviews the carrying values of mineral properties and deferred costs with external mining professionals. A decision to abandon, reduce or suspend activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases, and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre-determined holding period for properties with unproven reserves. However, based on the results at the conclusion of each phase of an exploration program, properties that are not suitable as prospects are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral properties and deferred costs represent unamortized costs to date and do not necessarily reflect present or future values.

(K) ASSETS HELD FOR DISPOSAL

As the Company is a merchant bank operation, it is in the business of purchasing and disposing of businesses.

Long lived assets being held for sale that meet the restrictive criteria of generally accepted accounting principles (Section 3475 of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook")) are segregated in the attached consolidated balance sheet. Any such assets for which sale has been completed before the completion of these financial statements are classified, in accordance with the requirements of the CICA Handbook, as current assets.

Long lived assets that are being held for disposal but for which the Company has no control over the disposal process are segregated and classified as assets held for disposal by other than sale.

Operating results of businesses or components of segments that are classified as being held for sale at year end, as well as results of business segments or components of segments sold, including gain or loss on sale, during the year are classified as results of discontinued operations in the attached consolidated financial statements for 2003 and 2002.

(L) LONG-TERM INVESTMENTS

The accounts of all subsidiaries are consolidated from the dates of acquisition. Investments in significantly influenced companies are accounted for by the equity method. Other long-term investments, including limited partnerships are carried at cost. When there is other than a temporary decline in value, these investments are written down to provide for the loss.

(M) LAND DEVELOPMENT COSTS

Land is recorded at the lower of cost, which includes development costs and carrying charges, and estimated realizable value. When there is an impairment in value, this decline is charged to earnings and land is carried at the reduced values.

(N) GOODWILL

Goodwill represents the excess of the cost of acquisitions over the fair market value of their net assets acquired at dates of acquisition. In accordance with the Section 3062 of the Handbook of the Canadian Institute of Chartered Accountants, goodwill is not amortized. An annual review for impairment is conducted on goodwill and if an impairment is required it is charged to earnings in that period. The basis for determining whether an impairment has occurred is a comparison of the fair value of the reporting unit to which the goodwill relates to the carrying value of the reporting units net assets and liabilities including goodwill.

(O) REVENUE RECOGNITION

(i) Real estate development and housing construction

Revenue from all homebuilding and condominium sales is recognized upon the completion of the contract and transfer of title. During construction, all direct material and labor costs and indirect costs related to acquisition and construction are capitalized, and all customer deposits are treated as liabilities. Capitalized costs are charged to earnings upon closing. Costs incurred in connection with completed homes and selling, general and administrative costs are charged to expense as incurred. Provision for warranty costs and estimated losses on uncompleted contracts and on speculative projects is made in the period in which such losses are determined.

(ii) Resorts, recreation and real estate rentals

Revenue is recognized as services are provided or merchandise sold and title passes to the customer. Funds received in advance of meeting the revenue recognition criteria are deferred until future periods.

(iii) Loan and origination fees

Loan and origination fees represent fees earned by the Company for loaning money. The fee is recognized when the loan is repaid in full.

(iv) Interest

The Company recognizes interest when earned. If a loan is considered a non-performing loan, interest is not recognized.

(v) Gain on sale of servicing mortgage loans

Gain on sale of servicing mortgage loans represents service release premiums on loans originated in house. The gain is recognized and included in investment and other income when the funded loan is sold and the proceeds are received.

(vi) Rent

Rent revenue is recognized as income in the month earned.

(P) LEASES

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks or ownership of property are accounted for as capital leases. Assets acquired under capital leases are amortized on a declining balance method at an annual rate of 20%. All other leases are accounted for as operating leases and the related lease payments are charged to expense as incurred.

(Q) INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of substantive enactment. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

(R) STOCK OPTION PLAN

The Company has a stock option plan as described in Note 19.

Effective October 1, 2002, the Company adopted Section 3870 ("Stock-Based Compensation and Other Stock-Based Payments") of the C.I.C.A. Handbook. As permitted by Section 3870, the Company has applied this change prospectively for new awards granted on or after October 1, 2002. In periods prior to October 1, 2002, the Company recognized no compensation expenses when stock options or warrants were issued to employees or non-employees.

Employees

The Company has chosen to recognize no compensation expense when stock options are granted to employees and directors under stock options plans with no cash settlement features. Pro-forma net income and earnings per share, as if the fair value based accounting methods had been used to account for stock-based compensation cost, would be provided were any options issued. As no options were granted since October 1, 2002, no pro-forma information is provided.

Non-employees

For stock-based compensation issued to non-employees, the Company recognizes an asset or expense based on the fair value of the equity instrument issued.

(S) EMPLOYEE SHARE PURCHASE PLAN

As discussed in Note 19 the Company has an employee share purchase plan whereby employees and directors are entitled to purchase common shares of the Company and the Company will issue the participant the equivalent number of common shares at no additional cost to the participant. In accordance with the Canadian Institute of Chartered Accountants rules

the plan is considered a compensatory plan. Accordingly the Company records as an expense the difference between the fair value of the common shares issued to the employee or director, as determined by the trading price on the day prior to the subscription, and the amount paid by the employee or director.

(T) PER SHARE INFORMATION

Loss per share amounts have been calculated and presented in accordance with the recommendations of the Canadian Institute of Chartered Accountants whereby the treasury stock method is used to calculate diluted earnings per share. Loss per share has been calculated using a weighted average number of common shares outstanding of 59,835,356 for the year ended September 30, 2003 (59,394,885 for the year ended September 30, 2002).

Diluted earnings per share considers the dilutive impact of the exercise of outstanding stock options, warrants and conversion of preferred shares, as if the events had occurred at the beginning of the period or at a time of issuance, if later. Fully diluted loss per share has not been presented as the effect would be anti-dilutive.

(U) USE OF ESTIMATES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles which require management to make best estimates of the underlying value of assets, specific estimates of economic useful lives and rates of amortization, and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the timing of recognition of revenues and expenses during the reporting period. Actual amounts may differ from these estimates.

4. RELATED PARTY TRANSACTIONS

DUE FROM RELATED PARTIES	**2003**	2002
Note receivable from Mr. Peter Workum, former Chief Executive Officer bearing interest at 10.0%, with no fixed terms of repayment. Loan provided to enable the exercise of 305,000 stock options of the Company in December of 2000. 397,000 common shares of Newmex Minerals Inc. provided as collateral.	**$ 595,490**	$ 595,490
Receivable from Mr. Peter Workum, former Chief Executive Officer, unsecured and non-interest bearing, with no fixed terms of repayment (see Note 24).	**147,144**	147,144
Receivable from Mr. Peter Workum, former Chief Executive Officer, denominated in US$1,644,693, unsecured and non-interest bearing, with no fixed terms of repayment (see Note 24).	**2,226,256**	2,596,148
Receivable from 667571 Alberta Ltd., a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, with no fixed terms of repayment, unsecured and non-interest bearing (see Note 24).	**100,000**	100,000
Receivable from Strategic Investments Fund, a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, with no fixed terms of repayment, unsecured and non-interest bearing (see Note 24).	**192,000**	192,000
Receivable from Lexington Capital Inc., a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, with no fixed terms of repayment, unsecured and non-interest bearing (see Note 24).	**66,666**	66,666

DUE FROM RELATED PARTIES	**2003**	2002
Note receivable from HS Replica Cars AG, a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer and Mr. Rolf Brunner, a former director, due on demand, bearing interest at 12% per annum, and collateralized by real estate, with no fixed term of repayment (see Note 24).	**425,193**	425,193
Note receivable from Mr. Theodor Hennig, former Chief Financial Officer unsecured, bearing interest at 10.0%, with no fixed terms of repayment. Loan provided to exercise 50,000 stock options of the Company in December of 2000.	**244,053**	244,053
Promissory note receivable from Law Investments Inc., a company partially owned by Mr. Grant Sardachuk, a former director of the Company and former President of EnerGCorp, Inc. bearing interest at 8%. The note is denominated in US dollars ($253,467) due in September 2003 and is collateralized by 3,512 shares of common stock of American Home Capital Corporation, held in escrow.	**343,093**	388,594
Note receivable from The Creative Classics Company, a company now controlled by a shareholder and managed by a former officer, bearing interest at 7% with no fixed terms of repayment.	**4,007,113**	4,007,113
Note receivable from The Creative Classics Company, a company now controlled by a shareholder and managed by a former officer, denominated in U.S.$1,771,005, bearing interest at 7% with no fixed terms of repayment.	**2,397,232**	2,795,531
Note receivable from Swiss Plastering & Interiors, Inc., a company now controlled by a shareholder and managed by a former officer, denominated in US$ 2,192,863, bearing interest at 7% with no fixed terms of repayment.	**2,968,259**	3,461,434
Note receivable from Hampton Court Resources, a company whose President was a director of the Company, with no fixed terms of repayment (see Note 22).	**5,029,309**	5,029,309
Due from a company affiliated with Mr. Greg Harrington, formerly a director of a subsidiary, non-interest bearing with no fixed terms of repayment. Denominated in US dollars (US$ 50,499).	**66,355**	79,713
Unsecured promissory note due from a company affiliated with Mr. Greg Harrington, formerly a director of a subsidiary, denominated in US dollars ($116,000), bearing interest at 9% interest per annum. The note was due December 28, 2002.	**169,369**	183,106
Unsecured promissory note due from Mr. Greg Harrington, formerly a director of a subsidiary, denominated in US dollars ($316,682), bearing interest at 9% interest per annum. The note was due December 28, 2002.	**428,661**	499,882
Note receivable from Cofima Finanz AG, a company that has acted in concert with former management and a major shareholder, partially in US dollars ($330,000) plus accrued interest bearing interest at 18% and unsecured, due on demand.	**906,645**	906,645
Note receivable from Alternative Vehicle Rentals Inc., a company now controlled by an entity controlled by Mr. Ron Conquest, who was acting in the capacity of an officer of EnerGCorp, Inc., bearing interest at the rate of 12% per annum, secured by automotive inventory denominated in US dollars ($329,411).	**445,891**	–
Due from a director, unsecured bearing interest at 8.5% per annum, due on demand.	–	50,000

DUE FROM RELATED PARTIES		**2003**		2002
Due from other affiliated companies, non-interest bearing with no fixed terms of repayment.		**6,768**		23,101
		20,767,497		21,791,122
Less: Provision for uncollectible amounts		**(20,767,497)**		(21,337,321)
Balance, September 30	**$**	**–**	$	453,801

DUE TO RELATED PARTIES		**2003**		2002
CPV/CAP COOP Personalversicherung, Pensionskasse der Coop Gruppe, ("CPV") US $3.0 million secured by a first charge against the Mark Andrew note receivable, general security agreement of SAMI, and guaranteed by the Company. The indebtedness is repayable March 1, 2004 with monthly payments of interest only at the rate of 9% per annum.	**$**	**4,060,800**	$	–
SPIDA U.S. $578,750, unsecured including accrued interest at 7% per annum, due January 31, 2004		**783,396**		–
Balance, September 30	**$**	**4,844,196**	$	–

TRANSACTIONS WITH RELATED PARTIES

a) During the year, the Company was advised by a shareholder, SPIDA, that in June of 1999 it had loaned U.S. $500,000 to the Company's subsidiary EnerGCorp Inc. which had not been repaid. The Company has determined that this loan was recorded as being offset against the note from The Creative Classics Company Inc. in a year prior to 2002. Since the Creative Classics note was fully provided for in the prior year, the note due to SPIDA has been recorded in the current year, with accrued interest of U.S. $78,750 and a further write-down provision on the Creative Classic note of $746,113 (U.S. $500,000) has been recorded.

b) The Company paid interest and fees to related parties for each of the years ended September 30, as follows;

		2003		2002
CPV (US $187,500)	**$**	**274,725**	$	-
Tuscana Management Corp.		–		426,373
ASCOOP		–		12,147
Bob Fillion		–		2,004
Finspeed GmbH		–		47,376
	$	**274,725**	$	487,900

c) During the year ended September 30, 2003 the Company made sales in the amount of approximately $Nil (year ended September 30, 2002 – approximately $428,000) from its automotive operations to Mr. Peter Workum, the former Chief Executive Officer. These amounts are included in Mr. Workum's indebtedness to the Company.

During the year ended September 30, 2003, the Company paid U.S. $7,860 of expenses on Mr. Peter Workum's behalf.

d) Consulting Fees

Sendal S.A. is a company believed to be controlled by Mr. Peter Workum or an associate. Sendal S.A. was paid a total of $Nil in consulting fees during the year-ended September 30, 2003 (year-ended September 30, 2002 – $299,000).

e) Commissions on Private Placements
In December of 2001, the Company completed a private placement for the issue of common shares. Hippocampus Corporate Development AG ("Hippocampus") acted as agent for the private placement and was paid a commission of $399,910. It is management's understanding that Mr. Peter Workum attempted to acquire a 33⅓% beneficial interest around the time of the transaction, such attempt or any other relationship was not previously disclosed to the Company or the regulatory authorities. Management of Hippocampus has advised the Company that it was independent of the Company at all material times and that Mr. Workum has never owned any shares. Nonetheless, generally accepted accounting principles require disclosure of the foregoing as a related party transaction.

f) During the year-ended September 30, 2003 a subsidiary charged Law Investments Inc., a company partially owned by Mr. Grant Sardachuk, formerly a director of the Company and President of EnerGCorp, Inc., interest on the note receivable of US$17,388 (Cdn$25,476) (year ended September 30, 2002 - US$28,825, (Cdn$45,342)). Management fees charged by Law Investments Inc. to a subsidiary of US$11,576(Cdn$16,961) partially offset this amount (year ended September 30, 2002 - US$28,825, (CDN$45,342)). These fees were in addition to the US$91,000 fees paid to Law Investments Inc. by EnerGCorp, Inc during the year ended September 30, 2002. The loan balance has been provided for as uncollectible due to non-performance.

g) During the year ended September 30, 2002 the Company advanced approximately $682,000 to entities believed to be controlled by Mr. Peter Workum and/or Cofima Finanz A.G. and/or Mr. Gilbert Schoeni for the ostensible purchase of 2,200,000 shares (approximately 6% of shares outstanding) of Odyssey Pictures Corporation (a United States publicly-traded company). As no share certificates or other evidence of ownership has been received, the Company wrote-off in the year ended September 30, 2002 the previously recorded value of this investment as part of the write–downs described in Note 26.

h) Write-off of previously disclosed income.
During the year ended September 30, 2002 the Company recorded interest and other income of approximately $3.5 million in respect of loans, advances and other balances due from or transactions with related parties. This income had not, in accordance with generally accepted accounting principles, been earned and should not have been recorded by the Company or disclosed in previously issued interim financial statements as income. This amount had been written-off along with the underlying non-recoverable assets included in the write-downs as described in Note 26. No interest was recorded for these notes during the year ended September 30, 2003. Had interest been recorded on these notes, approximately $1.7 million would have been recorded.

i) Sale of Alternative Vehicle Rentals Inc.
The disposition of Alternative Vehicle Rentals Inc., described in Note 20, was to a company controlled by Mr. Ron Conquest, who at that time was acting as a consultant to EnerGCorp, Inc. until the Phoenix office was closed in April of 2003. The purported disposition price was equal to repayment of advances of U.S. $255,000 previously made to the Company plus 50% of any proceeds from the sale of the vehicles on hand after the obligations of the entity were satisfied. The Company has only realized on $75,000 of the proceeds through transfer of a vehicle to the Company. While such remaining amounts owing to the Company have been fully provided for, Management is still pursuing collection of these amounts.

j) During the year the Company was charged $515,000 by the directors for directors fees and other services. At year-end, $300,000 was due and included in accounts payable and accrued liabilities in the attached 2003 consolidated balance sheet.

5. CONSULTING FEES

During the year ended September 30, 2003 the Company paid consulting fees for management services to APG Capital Services Corp. under the terms of the agreement disclosed in Note 22(d), in the amount of $455,000 (year ended September 30, 2002 – Nil).

In addition, the Company paid APG Capital Services Corp. fees based upon the dispositions that occurred prior to year end, as disclosed in Note 20, in the amount of $1,494,589 (year ended September 30, 2002 – Nil).

6. NOTES RECEIVABLE

	2003	2002
Note receivable from The Mark Andrew of the Palm Beaches Ltd.; with balance denominated in U.S. dollars of $12,442,266 (2002 - $12,442,266), bearing interest at 12%per annum, through September 30, 2002, when the balance of principal and accrued interest was due and payable; secured by real estate mortgage, assignment and security agreement. Assets securing this loan are subject to foreclosure proceedings by the Company (see Note 24(C)).	**$ 16,841,852**	$ 19,152,997
Notes receivable from YUMA Development LLC with balance denominated in US dollars of $4,298,144 (2002 - $4,298,144). The notes are due on September 29, 2005, bearing interest rates ranging from 8% to 9.21% per annum and secured by real estate and other assets.	**5,817,968**	6,784,621
Note receivable from Kerry Kennedy, with balance denominated in US dollars of $2,208,798 non-interest bearing through January 2002, secured by a first mortgage deed of trust (i.e. first mortgage) on real property. This note was repaid during the year.	–	3,486,588
Notes receivable from Citywide Funding, Inc. with balance denominated in U.S. dollars of $2,234,500 (2002 - $2,234,500) with interest at 20% per annum, due on demand, unsecured.	**3,024,619**	2,895,758
Note receivable from Saddleback Handcrafted Homes Ltd., with balance denominated in US dollars of $995,706 due on demand and without interest, secured by real estate.	–	1,571,721
Note receivable from Montevina Estate Homes with balance denominated in US dollars of $811,125 bearing interest of 12% per annum, secured by a subordinated charge on real estate.	**1,097,939**	–
Note receivable from LEX Minerals, secured by general security agreement against assets of LEX Minerals Inc.	–	630,000
Notes receivable from Comsite AG Inc. bearing interest at the rate of 24% per annum convertible into common shares of Comsite AG Inc.	**774,072**	774,072
Notes receivable from Chateau Hotels and Resorts Inc. (note 24 (i)) bearing interest ranging from 12% to 24% per annum, secured by a personal guarantee and financing contracts, which were due September 30, 2002.	**582,419**	582,419
Notes receivable from Mr. Mark Guidolin, guaranteed by Hole Shot Custom Engines Ltd., and a pledge of shares of Hole Shot Custom Engines Ltd. bearing interest at the rate of 24% per annum due January 2, 2003.	**235,624**	235,624
Note receivable from Mr. Phil Tennyson originally due in 2002 deferred to forbearance agreement, currently due on demand bearing interest at a rate of 12% per annum denominated in US Dollars (US$130,379), written off during the year	–	205,804
Notes receivable from Mr. Leonard Bolger, bearing interest at 12% per annum.	**177,000**	177,000
Notes receivable from 557497 Alberta Limited, unsecured, interest at 12% per annum, due on demand.	**130,000**	130,000
Notes receivable with balance denominated in U.S. dollars of $100,000 due from Mr. and Mrs. Holland, non-interest bearing, secured by a second deed of trust (i.e. second mortgage) on real estate in the United States. During the year foreclosure on the security was completed.	–	157,850

6. NOTES RECEIVABLE CONTINUED

	2003	2002
Other notes receivable due on demand.	**431,269**	700,951
	28,741,176	37,485,405
Deduct provision for impairment in value	**(12,157,084)**	(14,729,761)
	16,584,092	22,755,644
Current portion , September 30	–	4,169,312
Balance, September 30	**$ 16,584,092**	$ 18,586,332

7. RESTRICTED CASH DEPOSITS

Restricted cash which is not available for general corporate purposes is in respect of:

Real Estate

These funds (September 30, 2003 - $854,365, September 30, 2002 - $208,883) are held in trust under various agreements with real estate lenders and also pursuant to regulatory requirements. The release of these amounts from trust is dependent upon the Company completing various stages of development work or other conditions as specifically determined in individual agreements.

Resort and Recreation

These funds (September 30, 2003 - $41,104, September 30, 2002 - $273,361) are pledged as collateral for letters of credit on certain properties. The letters of credit generally relate to either property development activities or as security for future operating lease payments.

8. ACQUISITIONS

No business acquisitions were completed during the year ended September 30, 2003.

The following business acquisitions were completed during the year ended September 30, 2002:

In December 2001, the Company and its subsidiary EnerGCorp, Inc., foreclosed on the notes owed by Azterra Equities Inc. It agreed to settle the foreclosure by exchanging the debt instrument for Azterra Equities Inc's 81% per cent limited and general partner interest in the University Polo Club Limited Partnership ("Polo Club"). As a result, the Company and its subsidiaries owned 100% of the Polo Club. The full value of the note of US$3,017,954 plus the previous year's cash investment of US$607,566, other costs of US$51,221 resulted in a total investment cost of US$3,676,742 (CDN$5,806,453).

In May of 2002 the Company completed the acquisition of a 50% beneficial interest in the Eau Claire Market and 50% of the common shares of M.P. Acquisitions Limited for $17,500,000 of cash and vendor take-back financing plus the assumption of a pro-rata share of the mortgage on the property, being approximately $12.6 million. At that time it also agreed to a put/call option to acquire the remaining 50% beneficial interest and common shares for a further $17,500,000. The option was exercised by the vendor and as a result, on August 2, 2002 the Company acquired the remaining 50% for $17,500,000 of cash, vendor take-back financing and the assumption of the balance of the mortgage on the property of approximately $12.5 million. The vendor take-back financing was for a total of $4.9 million and required payments of $1,000,000 September 2, 2002, $500,000 October 1, 2002 and the balance November 1, 2002. The debenture required payments of interest, with the above payments, at the rate of 7% on $1.0 million of the balance from August 1-14, 2002, and then at the rate of 12% per annum on the outstanding balances from August 15, 2002 until paid.

The cost of these acquisitions was allocated to the fair value of the assets at the time of purchase as follows:

	Polo Club	Eau Claire Market
Cash	$ 116,262	$ 95,152
Working capital (deficiency)	318,657	(167,639)
Other assets	–	175,401
Property, plant and equipment	29,248,773	34,498,155
Goodwill	–	339,795
Long-term debt assumed	(23,900,178)	(24,985,273)
	$ 5,783,514	$ 9,955,591
Cash consideration	$ 80,571	$ 5,055,591
Cash consideration in previous year	941,519	–
Note receivable consideration	4,761,424	–
Note payable consideration	–	4,900,000
Total consideration	$ 5,783,514	$ 9,955,591

9. INVENTORIES

Inventories are comprised of the following:	**2003**	2002
Supplies and merchandise	**$ 608,616**	$ 1,549,236
Vehicles and automotive parts	**99,618**	552,224
Work in Progress:		
Homes	**210,799**	308,959
Balance, September 30	**$ 919,033**	$ 2,410,419

10. LAND DEVELOPMENT COSTS

Land development costs are comprised of the following:	**2003**	2002
Acquisition costs		
Development	**$ 2,740,539**	$ 2,102,913
Capitalized interest	**855,373**	855,373
	3,595,912	2,952,286
Deduct: Provision for impairment in value	**(2,958,286)**	(2,264,844)
Balance, September 30	**$ 637,616**	$ 693,442

11. PROPERTY PLANT AND EQUIPMENT

		2003	
	Cost, net of impairment	**Accumulated depletion and amortization**	**Net carrying value**
Land	**$ 680,270**	**$ –**	**$ 680,270**
Buildings	**41,587,088**	**4,149,268**	**37,437,820**
Mining properties	**1,027,989**	**–**	**1,029,989**
Petroleum and gas properties	**–**	**–**	**–**
Mobile homes	**–**	**–**	**–**
Landscaping	**9,100**	**1,820**	**7,280**
Roads	**–**	**–**	**–**
Distribution lines	**–**	**–**	**–**
Leasehold improvements	**1,672,560**	**317,623**	**1,354,937**
Machinery and equipment	**3,710,317**	**2,282,597**	**1,427,720**
Vehicles	**494,074**	**195,117**	**298,957**
	$ 49,181,398	**$ 6,946,425**	**$ 42,234,973**

		2002	
	Cost, net of impairment	Accumulated depletion and amortization	Net carrying value
Land	$ 24,953,335	$ -	$ 24,953,335
Buildings	88,196,748	4,438,155	83,758,593
Mining properties	922,800	-	922,800
Petroleum and gas properties	7,976,906	5,472,513	2,504,393
Mobile homes	693,282	118,796	574,486
Landscaping	1,631,778	649,784	981,994
Roads	1,800,405	641,509	1,158,896
Distribution lines	2,439,505	471,430	1,968,075
Leasehold improvements	3,345,979	481,073	2,864,906
Machinery and equipment	7,049,586	2,892,198	4,157,388
Vehicles	2,589,045	712,374	1,876,671
	$ 141,599,369	$ 15,877,832	$ 125,721,537

a) The net carrying value of equipment under capital lease obligations included in the above was approximately $25,000 at September 30, 2003 (approximately $850,000 at September 30, 2002).

b) In 2003, costs related to non-producing oil and gas properties of $Nil (September 30, 2002 - $667,579) were excluded from the depletion calculation.

12. INVESTMENTS

	2003	2002
Investment in Limited Partnership Units		
The Lodge at Kananaskis/Ribbon Creek	**$ –**	$ 3,720,104
Mayfield Suites	–	613,490
Investment in Public Companies		
Viceroy Resource Corporation (market)	–	610,870
AirIQ (cost) (market – $457,000)	**456,713**	1,016,752
Phoenix Capital Inc. (cost) (market – $391,000)	**450,818**	450,818
Golden Phoenix Minerals, Inc.	–	974,337
Other (cost)	**326,252**	213,559
Balance, September 30	**$ 1,233,824**	$ 7,599,930

13. OTHER ASSETS

		2003	
	Cost	**Accumulated amortization**	**Net carrying value**
Goodwill	**$ –**	**$ –**	**$ –**
Financing fees	–	–	–
Other	**188,987**	**111,981**	**77,006**
	$ 188,987	**$ 111,981**	**$ 77,006**

			2002		
		Cost	Accumulated amortization		Net carrying value
Goodwill	$	2,841,895	$ –	$	2,841,895
Financing fees		1,064,836	320,533		744,303
Other		16,722	–		16,722
	$	3,923,453	$ 320,533	$	3,602,920

14. BANK INDEBTEDNESS

		2003		2002
Loan agreement with a U.S. Bank, which allows the Company's subsidiary to fund loans through a US $9,500,000 line of credit provided by the U.S. Bank ("Warehouse Loan"). The Company pays all fees associated with the line of credit. The Company also pays the Bank interest on loans while in the line of credit at LIBOR plus 4.43%. Amount is denominated in US $ in the amount of $1,850,391 and is secured by mortgages held for sale having a carrying value of US $2,229,382.	**$**	**2,504,689**	$	9,181,160
Bank One (US $678,853) secured by chattel mortgage on vehicles bearing interest at the rate of bank prime plus 2%, due on demand. Balance was repaid during the year.		–		1,071,570
Balance, September 30	**$**	**2,504,689**	$	10,252,730

15. SHORT–TERM NOTES PAYABLE

		2003		2002
DRS Resource Investments Inc., (US $800,000) bearing interest at 8% per annum, secured by the shares of Pebble Beach Apartments Inc. (see Notes 17 and 20)	**$**	**1,082,880**	$	1,262,800
Patriot Equities Group, debenture payable in respect of the Eau Claire Market acquisition (Note 8). Secured by a second charge on capital assets with a carrying value of $29,101,198, bearing interest at the rate of 12% per annum repayable up to $500,000 plus interest October 1, 2002 and the balance including interest on November 1, 2002.		–		4,044,392
Paragon Capital Corporation Ltd., note payable secured by a second charge on the Kananaskis Mountain Lodge along with the Company's interest in 322375 Alberta Ltd. The security has a carrying value of $6,879,023. The note bears interest at the rate of 2.5% per month compounded monthly and is repayable December 12, 2003. Monthly repayments of interest only are required (see Note 29 (C)).		**2,000,000**		4,080,000
The Lodge at Waterton Lakes Limited Partners and the shareholders of The Lodge at Waterton Lakes Inc., bearing interest at a rate of 8% per annum.. Secured by a third charge on real estate with a carrying value of $2,885,532 (see Note 16).		**650,000**		650,000
Wells Fargo Bank (US$49,700), bearing interest at bank's prime rate plus 1.57%. Secured by real estate.		–		76,165
Sundry		**258,422**		311,290
Balance, September 30	**$**	**3,991,352**	$	10,424,647

16. ASSETS HELD FOR DISPOSAL BY OTHER THAN SALE

WATERTON LAKES LODGE (note 24 (d))	**2003**	2002
On November 29, 2002 the secured lender of Waterton Lakes Lodge placed the property into receivership after demanding repayment of its loan. Accordingly, in the year ended September 30, 2002, the Company has provided for a write-down in the carrying value of the property based on the estimated liquidation value. No adjustment to the amount of the debts against the property has been recorded as the Company has not been able to determine what, if any, debt forgiveness may occur.		
Assets held for disposal by other than sale	**$ 2,885,532**	$ –
Obligations related to assets held for disposition by other than sale		
First mortgage due to Royal Trust, bearing interest at 8.21%, secured by buildings and other assets having a carrying value of $2,757,006, currently due.	**4,004,492**	–
15% second mortgage, maturing December 31, 2002, secured by buildings and other assets, having a carrying value of $2,885,532.	**1,500,000**	–
Other	**357,749**	–
	$ 5,862,241	$ –

17. ASSETS HELD FOR DISPOSAL BY SALE

Long lived assets that are not yet disposed of at year end, and that meet the restrictive criteria under generally accepted accounting principles (section 3475 of the CICA Handbook) are segregated and classified as assets held for disposal by sale. The indebtedness secured by these long lived assets is classified as obligations related to assets held for disposal by sale. Long lived assets that are classified as assets held for disposal by sale at September 30, 2003 for which the sale has been completed by the date of completion of these financial statements are classified as current assets. No amounts have been presented for September 30, 2002 as no assets met the criteria at that time.

Having determined that the restrictive plan of sale criteria as contained in paragraph 3475.08 of the CICA handbook were met, the carrying value of these assets was reduced by $2,000,000 to reflect costs to sell and adjusted fair values as a result of the market prices (exclusive of 2003 foreign exchange fluctuation) that were determined.

Assets held for disposal by sale at September 30, 2003:

	Canadian Rocky Mountain Properties Inc. ("CMP") (Note 20)	Family Golf Acquisitions Inc. ("Eagle Quest") (Note 20)	Pebble Beach Apartments Inc. (Note 20)	Total
Property, plant and equipment	$ 14,782,358	$ 9,904,716	$ 13,121,117	$ 37,808,191
Other assets	3,564	183,182	378,589	565,335
Total	$ 14,785,922	$ 10,087,898	$ 13,499,706	$ 38,373,526

Obligations related to assets held for Disposal by Sale At September 30, 2003

Mortgages secured by Property, plant and equipment	$ 13,430,565	$ 2,262,861	$ 11,357,738	$ 27,051,164

18. LONG-TERM DEBT

		2003		2002
Eagle Quest Golf Centers Inc.				
Demand loan bearing interest at prime plus 2.25%, repayable in blended monthly installments of principal and interest of $84,417 to 2016. Loans secured by all of the assets of Eagle Quest Golf Centers Inc. and a $3,000,000 guarantee from Proprietary Industries Inc. (see Notes 17 and 20)	**$**	–	$	10,413,322
Qualicum Heritage Inn				
Demand loan, subject to a forbearance agreement until June 30, 2004, repayable in monthly installments of $13,275 including interest at prime plus 2%, secured by a general security agreement and land and building having a carrying value of $1,321,102.		**589,461**		699,296
Waterton Lakes Lodge (See Note 16)				
First mortgage due to Royal Trust, payable in monthly installments of $55,818 including interest at 8.21%, secured by buildings having a carrying value of $2,757,006,currently due.		–		4,004,492
15% second mortgage, maturing December 31, 2002 payable in monthly installments of interest only, secured by buildings, having a carrying value of $2,757,006.		–		1,500,000
Kananaskis Mountain Lodge				
Demand loan, subject to a forbearance agreement until June 30, 2004, repayable in monthly installments of $32,000 including interest at prime plus 3%, secured by the premises and the leasehold interest, having a carrying value of $6,879,023.		**3,005,183**		3,222,559
Demand loans, subject to a forbearance agreement until June 30, 2004, repayable in monthly installments of $6,667 plus interest. Interest is at prime plus 3%, secured by the premises and the leasehold interest having a carrying value of $6,879,023.		**393,353**		473,357
Central City Business Park				
Mortgage payable in monthly installments of $19,904 including interest at 7.375% secured by the premises and the leasehold interest, having a carrying value of $2,915,313, due October 1, 2002. (See Notes 17 and 20 for CMP)		–		2,185,326
2nd mortgages due on demand, payable in monthly installments of interest only at prime plus 4% with a minimum of 12%, secured by buildings having a carrying value of $2,915,313, terms are month to month. (See Notes 17 and 20 for CMP)		–		350,000
Eau Claire Market				
Mortgage payable in monthly installments of $223,388 including interest at 8.36% secured by a first charge on capital assets at a carrying value of $26,870,270, general assignment of lease rents and other security. The mortgage is due March 31, 2004 as the Company has not been able to meet required debt covenants.		**24,279,518**		24,892,975
High River Plant and Land				
Mortgage payable in three installments of $100,000 including interest at 12% secured by land and building included in capital assets at a carrying value of $556,627,due December 31, 2003.		**289,374**		299,826
Evergreen Community				
Mortgage payable in monthly installments of $83,085 including interest at 7.93% secured by capital assets at a carrying amount of $11,443,779, due October 1, 2010. (See Notes 17 and 20 for CMP)		–		10,974,969

	2003	2002
Lac La Biche Community Mortgage payable in monthly installments of $4,500 including interest at 7.25% secured by capital assets with a carrying value of $679,849, due December 7, 2004. (See Notes 17 and 20 for CMP)	–	334,177
High Prairie Community Mortgage payable in monthly installments of $3,000 including interest at 6.50% secured by capital assets at a carrying value of $132,383, due April 7, 2003. Subsequent to year end this was renewed for one year. (See Notes 17 and 20 for CMP)	–	223,295
776910 Ontario Ltd. Mortgage payable bearing interest at 9.5%, due on demand, from the proceeds of sale of certain real estate assets which have a carrying value of $299,106.	**334,000**	334,000
322375 Alberta Ltd. Mortgage payable on monthly installments of $4,875 including interest at 7.8%, secured by the building and leasehold interest, having a carrying value of $339,619, due May 1, 2009	**261,017**	298,591
Polo Club Mortgage payable in US dollars ($15,273,712) subject to Chapter 11 protection. Included in accrued liabilities is accrued interest of $Nil (September 30, 2002 - US $888,393 (Cdn $ 1,402,328)) secured by a first mortgage on capital assets having a carrying value of US$1,572,056 and an assignment of rents (See Note 20).	–	24,109,554
Pebble Beach Apartments Inc. (Stray Horse) Mortgage payable in US dollars (US$8,430,935) over a 40-year term requiring monthly payments of US$57,355 including interest, at 8.125%, secured by first mortgage on the property and assignment of rents having a carrying value of US$9,451,079, secured by land and building. (See Notes 17 and 20).	–	13,308,230
Canadian Tire Plaza Demand loan payable in monthly installments of $6,032 including interest at 8% secured by a first mortgage on certain real estate, having a carrying value of $601,622, and assignment of rents and fire and other perils insurance, due February 1, 2004.	**410,682**	448,570
BC Condos Mortgages payable in monthly installments of $7,620 including interest at various rates from 6.5% to 7.87% secured by first mortgages, capital assets and assignment of rents with a carrying value of $864,480, due in April 2004, subject to annual renewal.	**777,764**	809,585
Other – Capital Lease obligations, implicit lease rate of 10% to 12% payable in monthly installments of $1,900, due on various dates until 2005.	**31,598**	790,049
	30,371,950	99,672,173
Less Current Portion, September 30	**30,361,281**	74,200,542
Balance, September 30	**10,669**	25,471,631

Many of the above credit facilities include financial and other covenants under the terms and conditions of the facilities. Facilities which have covenants in violation at year-end are reflected entirely in the current portion, unless a waiver has been obtained from the creditor. Facilities that come due in the current fiscal year have been reflected as current unless the facility has been renewed beyond the current year prior to the issuance of the financial statements.

Principal repayments on long-term debt over the next five years are as follows:

2004	$ 30,361,281
2005	10,669
2006	-
2007	-
2008	-
	$ 30,371,950

19. SHARE CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of common shares, and an unlimited number of preferred shares. The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

b) Issued

Common shares issued	Number of shares	Attributed Value
Balance September 30, 2001	56,684,242	141,323,353
Issued for cash in private placement, net of issue costs	2,758,000	3,354,338
Issued to employees and directors under the employee share purchase plan		
For cash	991,307	817,551
Contributions by the Company	991,307	817,551
Redemption of shares	(1,589,500)	(3,993,435)
Balance September 30, 2002 and 2003	59,835,356	$ 142,319,358

c) Stock Options and Warrants

A summary of the Company's options at September 30, 2003 and 2002 and the changes for the years ending on those dates is presented below:

	2003		2002	
	Options Outstanding	**Weighted Average Average Price**	Options Outstanding	Weighted Average Average Price
Balance at beginning of year	**3,832,000**	**$ 0.87**	4,882,000	$ 0.81
Granted	**–**	**–**	1,900,000	0.93
Expired	**(3,425,000)**	**(0.88)**	(2,950,000)	(0.81)
Exercised	**–**	**–**	–	–
Balance at end of year	**407,000**	**$ 0.81**	3,832,000	$ 0.87

On February 16, 2002 the prior Board of Directors approved the re-pricing of all stock options outstanding at that time. The weighted average exercise price prior to the re-pricing was $3.16. All of the options were re-priced to require an exercise price of $0.81 per common share.

The following table summarizes information about the options outstanding at September 30, 2003.

Option	Exercise Price	Expiry Date
407,000	0.81	January 3, 2004

During fiscal 2003, as no options were granted, no fair value information is disclosed.

As at September 30, 2001 the Company had 2,600,000 warrants to purchase common shares outstanding all of which expired in fiscal 2002 without exercise. Had the warrants been exercised, the exercise price was $2.81 per common share. No warrants have been issued since 2001.

d) Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("the Plan"). Under the terms of the Plan employees, directors, officers and full-time consultants, as designated by the Board of Directors, who have held a position with the Company or an affiliated entity for a period of one year are eligible to participate.

Employees who elect to participate in the Plan upon being eligible, must elect to do so by the end of the fiscal year that they are designated for eligibility. If employees elect to participate, they can purchase up to $100,000 of common shares based upon the last closing trading price on the TSX Exchange prior to the completion of the election to participate. The Company will match the contribution of the employee such that the employee will have acquired two (2) common shares for the price of one (1).

The aggregate maximum number of common shares that can be reserved for issuance pursuant to the Plan is 5,000,000 common shares. As at September 30, 2003 a total of 1,982,615 common shares have been issued pursuant to the Plan leaving a balance of 3,017,385 reserved for issuance under the Plan, excepting that number of common shares reserved for issuance under all share compensation plans cannot exceed 10% of the issued and outstanding common shares of the Company. As a result the maximum number of common shares eligible under all share compensation plans at September 30, 2003 is 5,938,535. The total eligible under the Plan is the lower of this amount less the stock options outstanding or the above amount. Therefore the number reserved for issuance under the Plan is 3,017,385 common shares at September 30, 2003.

20. DISCONTINUED OPERATIONS

The Company has determined that the operations of the businesses, or components of businesses, that constitute "components of an enterprise" as defined by section 3475 of the CICA Handbook, that were sold during the year, or classified as held for disposal by sale at year end (Note 17), have been, or will be, eliminated from the Company's ongoing operations as results of these sales. The Company has also determined that it will have no continuing involvement in the operations of these businesses after completion of the sale. Therefore, the Company reclassified as discontinued operations, the operating results of these businesses. The comparative operating results are also reclassified to reflect the operating results of the discontinued operations separately in the comparative period. Results of operations for subsidiaries disposed during the year are included in the discontinued operations results up to the date of disposition. The impact of discontinued operations is an increase in the loss per share of $0.09 (2002 – $0.13)

(i) Dispositions that occurred during the year are as follows:

a) Eagle Quest Golf Centers Inc.
During the year the Company disposed of all of the assets and operations of two of Eagle Quest Golf Centers Inc. ("Eagle Quest") golf operations. The dispositions included the assignment of all of its rights, benefits, and obligations under all of the related capital and operating leases. The total gross proceeds under the agreement were approximately $9.5 million subject to certain adjustments. The net proceeds were utilized to pay down the indebtedness owed by the Company's subsidiary, Eagle Quest.

b) University Polo Club
In May 2003 the Company disposed of its apartment complex in Phoenix, Arizona known as the University Polo Club (Note 8) for gross proceeds (assumption of debt) of approximately U.S. $16.9 million subject to certain adjustments. The proceeds took the form of satisfaction of the indebtedness associated with the property which had been under creditor protection since April of 2002.

c) Invader Exploration Inc.

In June of 2003 the Company sold 88% of its holdings in Invader Exploration Inc. for gross proceeds of approximately $1.5 million. The Company also granted the purchaser a one year option on its remaining holdings of 2,000,000 common shares at a price of $0.11 per common share.

d) Alternative Vehicle Rentals Inc.

In April 2003 the Company, in effect, disposed of its vehicle rental company in Phoenix, Arizona. The disposition had been agreed to in September of 2002, however, since the Company had retained all risks of ownership of the assets and indebtedness (through EnerGCorp Inc's guarantee of the subsidiary's obligations), the disposition was not reflected until those obligations had been substantially satisfied. The disposition also was to a company controlled by Mr. Ron Conquest, who was acting in the capacity of an officer of EnerGCorp Inc. until the Phoenix office was closed in April of 2003. The agreed disposition price was equal to repayment of advances of U.S. $255,000 previously made to the subsidiary plus 50% of any proceeds from the sale of the vehicles on hand after the obligations of the entity were satisfied. The Company has only realized on $75,000 of the proceeds through transfer of a vehicle to the Company. All other amounts recoverable have been written off.

Summary of 2003 Dispositions	**Eagle Quest Golf Centers Inc.**	**University Polo Club**	**Invader Exploration Inc.**	**Alternative Vehicle Rentals Inc.**	**Total**
Net Assets Disposed					
Current assets	–	–	1,075,762	130,436	**1,206,198**
Property, plant and equipment	6,759,546	24,141,678	3,275,926	328,933	**34,506,083**
Other assets	22,426	–	–	–	**22,426**
	6,781,972	24,141,678	4,351,688	459,369	**35,734,707**
Current liabilities	–	–	(1,043,747)	(178,682)	**(1,222,429)**
Non-controlling interest	–	–	(3,025,197)	–	**(3,025,197)**
	6,781,972	24,141,678	282,744	280,687	**31,487,081**
Proceeds on disposition					
Cash	9,494,950	–	1,546,325	–	**11,041,275**
Deduct: Cash of subsidiary	–	–	(669,867)	–	**(669,867)**
Net cash received	9,494,950	–	876,458	–	**10,371,408**
Indebtedness assumed	64,681	23,546,360	–	–	**23,611,041**
Note receivable	–	–	–	364,650	**364,650**
Deduct:					
Costs of disposition (See Note 5)	(858,644)	(586,243)	(88,405)	–	**(1,533,292)**
Write-down of note	–	–	–	(364,650)	**(364,650)**
Net proceeds	8,700,987	22,960,117	788,053	–	**32,449,157**
Gain (loss) on disposition included in discontinued operations	1,919,015	(1,181,561)	505,309	(280,687)	**962,076**

(ii) Dispositions that were completed subsequent to year end but reported as discontinued operations and assets held for disposal by sale are as follows:

(a) CANADIAN ROCKY MOUNTAIN PROPERTIES INC. ("CMP")

On October 6, 2003 the Company sold its entire shareholdings in CMP in response to a takeover bid made by Parkbridge Limited Partnership. The disposition was an all cash sale of $2.00 per common share and generated gross proceeds to the Company of approximately $6 million. The Company utilized $2.8 million to repay an inter-company obligation owed to CMP.

(b) FAMILY GOLF ACQUISITIONS INC. ("FAMILY GOLF")

In November of 2003, Family Golf's subsidiary Eagle Quest sold its Markham golf operations for approximately $2.8 million. In December of 2003 the Company sold the balance of its golfing segment, exclusive of the Thunder Bay dome, by selling its shareholdings in Family Golf Acquisitions Inc. for $8.2 million subject to certain adjustments. Approximately $2.2 million of the proceeds were utilized to repay the majority of the Eagle Quest indebtedness outstanding at year end. Cash proceeds after closing adjustments and costs are anticipated to be approximately $8.7 million.

(c) PEBBLE BEACH APARTMENTS INC. ("PEBBLE BEACH")

In October 2003 the Company sold Pebble Beach back to its original owner. The disposal was completed partially to settle the dispute with the original owner with regard to the balance of the original purchase price still outstanding at September 30, 2003. The purchaser assumed the mortgage of approximately U.S. $8.4 million, extinguished its note of U.S. $800,000 and made a cash payment of U.S. $550,000. After deducting estimated costs of disposition, the net proceeds (including the debt assumptions described above) were approximately U.S. $9.5 million. As the carrying value of the property in U.S. dollars at September 30, 2003 was less than the net proceeds this would have resulted in a net U.S. dollar gain of approximately $152,000 had the transaction occurred September 30, 2003 . The resulting loss on the disposition is due to foreign exchange translation as the carrying value of the property is carried based on historical foreign exchange rates and the proceeds, composed mainly of indebtedness owing at year end is translated at current foreign exchange rates.

Summary:	**Canadian Rocky Mountain Properties Inc.**	**Family Golf Acquisitions Inc.**	**Pebble Beach Apartments Inc.**	**Total**
Net assets disposed				
Current assets	$ 60,361	$ 689,801	$ 332,644	$ 1,082,806
Assets held for disposal by sale (Note 17)	14,785,922	10,087,898	13,499,706	38,373.526
	14,846,283	10,777,699	13,832,350	39,456,332
Current liabilities	(651,578)	(1,432,641)	(474,059)	(2,558,278)
Future income taxes and non-controlling interest	(888,051)	–	–	(888,051)
	13,306,654	9,345,058	13,358,291	36,010,003
Proceeds on disposition				
Cash	6,541,176	10,313,750	715,000	17,569,926
Deduct: Cash of subsidiary	(476,323)	(773,782)	(14,036)	(1,264,141)
Net cash received	6,064,853	9,539,968	700,964	16,305,785
Satisfaction of indebtedness	–	–	1,082,800	1,082,800
Indebtedness assumed by purchaser (Note 18)	13,430,565	660,000	11,357,738	25,448,303
Estimated costs of disposition (see note 22 (d))	(1,025,658)	(806,000)	(326,480)	(2,158,138)
Net proceeds	18,469,760	9,393,968	12,815,022	40,678,750
Gain (loss) on disposition after year end	$ 5,163,106	$ 48,910	$ (543,269)	$ 4,668,747

(iii) Results of Operations for discontinued operations for the applicable period are as follows:

	Family Golf Acquisitions Inc.	Canadian Rocky Mountain Properties Inc.	Invader Exploration Inc.	University Polo Club	Pebble Beach Apartments Inc.	Alternative Vehicle Rentals Inc.	Total
Year ended September 30, 2003							
Revenues	$12,193,499	$ 3,414,646	$ 709,666	$ 2,129,582	$ 1,729,072	$ (284,213)	$ 19,892,252
Cost of sales	10,122,967	1,082,407	188,780	949,229	746,758	8,552	13,098,693
General and administrative	1,751,684	310,454	134,797	1,319,169	219,396	225,227	3,960,726
Interest on long-term debt	568,161	1,092,839	–	1,081,786	1,001,487	13,418	3,757,691
Depreciation and amortization	972,430	435,352	81,559	437,412	593,666	42,602	2,563,021
Write-downs	2,000,000	–	–	–	–	–	2,000,000
Other	14,199	3,607	–	–	–	–	17,806
	15,429,441	2,924,659	405,136	3,787,596	2,561,307	289,798	25,397,937
Net earnings (loss) before non-controlling interest and income taxes	(3,235,942)	489,987	304,530	(1,658,014)	(832,235)	(574,011)	(5,505,685)
Non-controlling interest	–	73,476	162,161	–	–	–	235,637
Income taxes	27,439	309,689	–	–	–	–	337,128
Net operating earnings (loss)	(3,263,381)	106,822	142,369	(1,658,014)	(832,235)	(574,011)	(6,078,450)
Gain (loss) on disposition	1,919,015	–	505,309	(1,181,561)	–	(280,687)	962,076
Net earnings (loss) from discontinued operations	(1,344,366)	106,822	647,678	(2,839,575)	(832,235)	(854,698)	(5,116,374)

	Family Golf Acquisitions Inc.	Canadian Rocky Mountain Properties Inc.	Invader Exploration Inc.	University Polo Club	Pebble Beach Apartments Inc.	Alternative Vehicle Rentals Inc.	Total
Year ended September 30, 2002							
Revenues	12,387,221	3,253,230	794,651	2,253,636	1,998,534	1,048,395	21,735,667
Cost of sales	10,139,361	1,119,195	269,058	1,021,461	709,516	136,483	13,395,074
General and administrative	1,455,904	264,100	241,438	432,907	186,473	711,525	3,292,347
Interest on long-term debt	569,276	1,126,026	–	1,979,541	1,235,873	81,287	4,992,004
Depreciation and amortization	727,173	450,149	253,692	401,826	2,227,721	518,692	4,579,252
Write-downs	–	–	3,080,145	901,118	–	486,313	4,467,576
Other	–	–	–	–	–	–	–
	12,891,714	2,959,470	3,844,333	4,736,853	4,359,584	1,934,300	30,726,253
Net earnings (loss) before non-controlling interest and income taxes	(504,493)	293,760	(3,049,682)	(2,483,216)	(2,361,050)	(885,905)	(8,990,586)
Non-controlling interest	–	143,271	(1,513,319)	–	–	–	(1,370,048)
Income taxes	25,653	228,907	–	–	–	–	254,560
Net operating earnings (loss)	(530,146)	(78,418)	(1,536,363)	(2,483,216)	(2,361,050)	(885,905)	(7,875,098)
Gain (loss) on disposition	–	–	–	–	–	–	–
Net earnings (loss) from discontinued operations	$ (530,146)	$ (78,418)	$(1,536,363)	$(2,483,216)	$(2,361,050)	$ (885,905)	$ (7,875,098)

21. INCOME TAXES

The income tax provision reflects an effective tax rate that differs from the expected tax rate as summarized below:

	2003	2002
Expected tax recovery at 38.394% (39.874% for 2002)	**(5,258,314)**	(33,644,379)
Large Corporation Tax	**79,494**	221,509
Taxable loss of limited partnership investments	–	(165,643)
Exempt portion of capital gains	**(24,673)**	(310,187)
Benefit of utilization of tax losses of previous years	**(1,135)**	(536,363)
Valuation adjustments	**(72,371)**	979,043
Adjustment to future tax assets and liabilities for enacted tax rates	**1,035,655**	4,582,450
Tax losses of current year not recognized for accounting purposes	**4,316,707**	28,139,901
	75,363	(733,669)

The tax effects of temporary differences that give rise to future tax liabilities at September 30 are presented below:

	2003	Restated 2002
Future tax assets:	**$**	$
Mining properties and deferred costs	**986,158**	1,079,701
Capital assets and other assets	**8,774,816**	5,168,577
Operating loss carryforwards	**41,043,321**	35,730,442
Total gross future income tax assets	**50,804,295**	41,978,720
Valuation allowance	**(51,173,287)**	(42,335,232)
Net future income tax liability, September 30	**$ (368,992)**	$ (356,512)

As at September 30, 2003, the Company has accumulated non-capital loss carryforwards for tax purposes of approximately $78.1 million in Canada and $35.5 million in the U.S., which can be applied to reduce income taxes otherwise payable. A valuation allowance has been recorded against the future tax assets, as the Company cannot demonstrate that it is more likely than not that these assets will be realized by the application of these losses to reduce or eliminate taxes on taxable income during the carry forward periods.

These losses expire as follows:	Canada	U.S.
2004	$ 1,800,000	$ –
2005	$ 1,800,000	$ –
2006	$ 2.900,000	$ –
2007	$ 27,000,000	$ 800,000
2008	$ 1,000,000	$ 4,200,000
2009	$ 26,300,000	$ 3,200,000
2010	$ 17,300,000	$ 2,100,000
Thereafter to 2022	$ –	$ 25,200,000

22. COMMITMENTS

A) OPERATING LEASES

The Company leases equipment and premises under long-term operating leases that require the following annual rents:

2004	$ 207,869
2005	$ 91,686
2006	$ 68,563
2007	$ 64,049
2008	$ 64,049

B) LAND LEASES

i) Kananaskis Mountain Lodge and related facilities

The Company leases land from the Government of Alberta. The lease agreements require annual lease payments of $30,294 through expiry in 2036. The lease is renewable for an additional twenty-five years.

ii) Eau Claire Market

The Company leases land from the City of Calgary. The lease agreement requires annual lease payments of approximately $525,000 on the term of the lease which expires on December 31, 2004. The lease is renewable for an additional 25 years. The monthly payments are subject to escalation clauses associated with expansion of the Market.

iii) Eagle Quest (See Notes 17 and 20)

Eagle Quest leases land for six of its golf centers, various equipment and office space. Minimum operating lease obligations for each of the next five years are as follows.

2004	$	160,567
2005	$	135,955
2006	$	124,460
2007	$	123,500
2008	$	123,500

C) MANAGEMENT CONTRACT

Pebble Beach Apartments Inc. (See Notes 17 and 20)

Under the terms of a property management agreement the company was required to pay an annual fee for the management and administration of an apartment complex in Phoenix Arizona. The management fee is calculated at 3.5% of the apartments operating revenues. During the current year the company paid $60,417 in management fees under the contracts.

D) CONSULTING AGREEMENT

The Company has committed to a consulting agreement with APG Capital Services Corp. ("APG") for the supply of management and advisory services, including the provision of the services of the Executive Vice President of the Company. The Company is required to pay monthly retainer fees of $65,000 through the term of the contract. In addition the Company is required to pay an execution fee ("Execution Fees") on a sliding scale basis ranging from 6% to 2%, subject to a negotiated reduction or waiving of fees in certain circumstances, of the gross enterprise value of any disposition completed during the term of the agreement. Gross enterprise value ("GEP") is defined as the total proceeds, including extinguished indebtedness of the asset or business unit disposed.

The management and advisory services are to be provided through September 2004. If the Company terminates the agreement prior to this date, the Company is required to pay a termination fee equal to the remaining retainer fees through to September 15, 2004. As at September 30, 2003 this termination fee would be $715,000.

The Company has estimated the fees to be paid related to the dispositions described in Note 17 to be approximately $1,990,000

The agreement also requires, during the term of the agreement, that should a change of control occur, the Company will be required to pay additional fees based upon the GEP at the date of the change of control. The fee would be equal to 6% of the first $20,000,000 of GEP, 3% of the next $20,000,000 of GEP and 2% of the GEP in excess of $40,000,000 less any Execution Fees, net of fees paid in relation to debt transferred or retired, previously paid to APG. For the purpose of the agreement, control is defined as the percentage of voting rights ordinarily exercisable at meetings of shareholders of the Company that are sufficient to elect a majority of the Company's directors.

E) EMPLOYEE SHARE PURCHASE PLAN

The Company has established an Employee Share Purchase Plan which allows Directors, Officers and certain eligible employees to purchase the Company's shares under an arrangement where the Company will issue one share for the benefit of the employees for each share purchased. The maximum benefit available under the plan for any individual is $100,000 per year.

F) EAU CLAIRE MARKET

Under the terms of the Alberta Treasury Branch ("ATB") mortgage, the Company is required to complete annual capital improvements of $100,000 per year and a total of $300,000 on or before December 31, 2003. No expenditure under this commitment has been made to date. Included in restricted cash is a balance of approximately $300,000 deposited with the ATB in respect of this commitment.

23. FINANCIAL INSTRUMENTS

RISK MANAGEMENT

The Company is exposed to financial risk that arises from the fluctuation in interest rates and in the credit quality of the various parties the Company does business with. These risks are managed as follows:

(I) INTEREST RATE RISK

Interest rate risk arises from the possibility that the value of, or cash flows related to a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates used on their financial instruments. The Company is assessing its ability to manage this interest rate risk.

(II) CREDIT RISK

Credit risk arises from the possibility that the entities to which the Company provides products and services may experience difficulty and be unable to fulfill their obligations. The Company mitigates this risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one entity. Credit assessments are conducted in respect of new entities.

Accounts receivable (trade and short term notes), notes receivable and long term investments are assessed on a regular basis by management to ensure the credit worthiness of debtors and ultimate collections.

(III) FOREIGN EXCHANGE RISK

The Company is exposed to risks arising from fluctuations in foreign exchange rates, and the volatility of those rates. The company does not use derivatives to reduce its exposure to foreign exchange.

(IV) FAIR VALUE

In accordance with the disclosure requirements of the CICA Handbook, the Company is required to disclose certain information concerning its "financial instruments", defined as a contractual right to receive or deliver cash or another financial asset. The fair value of the majority of the Company's financial assets and liabilities approximate their recorded values at September 30, 2003. In these circumstances, the fair value is determined to be the market or exchange value of the assets or liabilities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

(V) SUMMARY OF SIGNIFICANT FINANCIAL INSTRUMENTS

The significant financial instruments of the company, their carrying values and the exposure to U.S.dollar denominated monetary assets and liabilities, as of September 30, 2003 are as follows:

	Total	U.S. $ Denominated
Cash and short-term deposits	$ 4,843,425	664,681
Accounts receivable, trade	$ 1,085,171	89,770
Notes receivable	$ 16,584,092	12,198,651
Accounts and accrued liabilities	$ 10,448,511	1,891,810
Bank indebtedness	$ 2,504,689	1,850,391
Notes payable	$ 3,991,351	990,951
Due to related parties	$ 4,844,196	3,578,750
Obligations of assets held for disposal by sale	$ 27,051,164	8,390,764
Obligations of assets held for disposal by other than sale	$ 5,862,241	–
Long term debt	$ 30,371,950	–

24. LITIGATION AND CONTINGENCIES

A) UNITED INDUSTRIAL SERVICES

The Company has been named as a defendant under a claim in which the plaintiff alleges the Company breached a contract under a share purchase agreement. The plaintiff claims that the Company did not complete a transaction in which it was obligated to acquire the plaintiff's shares in United Industrial Services Inc. The plaintiff is seeking damages of approximately $ 3,000,000. The action is scheduled to go to trial in January of 2004.

Management believes that the above claim is without merit, and will defend its position. The outcome of this claim cannot be reasonably determined.

B) AMON CARE, A.G.

The Company, three of its subsidiaries and a former director have been sued by Amon Care A.G. claiming it is owed US $1,300,000 and that the indebtedness was to have been satisfied through an assignment of proceeds from a note receivable. Amon Care A.G. claims that the indebtedness arises from an agreement whereby Amon Care A.G. had paid this amount to act as the Company's exclusive agent on any financings in Europe during the period July 1, 2001 through December 31, 2002. A payment of 2,000,000 Swiss Francs (CDN $2,000,000) was made by Finspeed GmbH, a company controlled by Mr. Rolf Brunner, a former director of the Company, to a Swiss bank account in the name of the Company that had Mr. Peter Workum, the former Chief Executive Officer, as the sole signing authority.

Management believes there is no merit to the action. Any loss from this action that may result cannot reasonably be determined.

C) THE MARK ANDREW OF THE PALM BEACHES LTD.

The debtor on the note receivable from The Mark Andrew of the Palm Beaches Ltd. ("Mark Andrew") has defaulted on the note. As a result the Company has initiated foreclosure proceedings on the property securing the note. The outcome of the foreclosure proceedings and subsequent bankruptcy could be lengthy and costly. The ultimate net realizable value of the note is dependent on these proceedings. Management believes it has made adequate provision for any losses that may result.

D) THE LODGE AT WATERTON LAKES

The Company's subsidiary, The Lodge at Waterton Lakes Inc., and The Lodge at Waterton Lakes Limited Partnership (collectively "Waterton") that owned and operated the hotel was sued by the Royal Trust Corporation of Canada for foreclosure on its first mortgage (See Note 16). The Court appointed a receiver and manager on November 29, 2002 who continues to manage the operations as of the date of issuing these financial statements and has provided no operating information to the Company.

E) WATERTON

The original unit-holders and shareholders of Waterton commenced an action against the Company and Waterton for non-performance on the $650,000 third mortgage incurred on the acquisition of Waterton. The Company believes a settlement will be reached in this matter and that adequate provision has been made in the accounts for this matter.

F) MR. THEODOR HENNIG

Mr. Hennig was formerly the Chief Financial Officer of the Company and its publicly traded subsidiaries, Canadian Rocky Mountain Properties Inc. ("CMP") and Newmex Minerals Inc. Mr. Hennig initially took a leave of absence but after further allegations were brought forward against him by the Alberta Securities Commission, was terminated with cause by the Company. On August 21, 2002 Mr. Hennig was one of several parties subject to an interim Cease Trade Order in securities and this order was extended on September 5, 2002 and remains in effect on the date of issuing these financial statements. Mr. Hennig attempted to exercise 50,000 stock options of CMP in September of 2002. CMP declined the request on the basis that it would have violated securities laws as a result of the cease trade order in effect. Mr. Hennig has since brought an action for damages, including punitive damages, in the amount of $50,000 against CMP and Proprietary, resulting from the failure of CMP to issue the shares. Management believes that the above claim is totally unfounded and without merit and will vigorously defend its position. The outcome of this claim cannot be reasonably determined.

G) MR. PETER WORKUM, MR. THEODOR HENNIG, MR. ROLF BRUNNER, CHESHIRE CAPITAL INC., LEXINGTON CAPITAL LTD., ASHLAND HOLDINGS CORP., STRATEGIC INVESTMENTS FUND, MR. PEDRO WICK AND MR. GILBERT SCHOENI, OFFICERS OF COFIMA FINANZ AG.

The Company commenced an action against these parties alleging breach of fiduciary duty, improper payment of secret commissions to offshore companies controlled by the executive officers of the Company, breach of trust, negligence, loss of reputation and debt. The claim is seeking an accounting and judgment against the defendants for the full amount of such commissions, general damages in the amount of $5 million, repayment of the debt, and punitive damages of $1 million together with interest and costs. Partial default judgment has been entered against Ashland, Strategic, Cheshire, as well as Messrs. Wick and Schoeni. Lexington has been noted in default.

The litigation involving Mr. Workum is complex due to the number of jurisdictions involved. The commissions paid to entities believed to be controlled by Mr. Workum individually or together with Mr. Hennig totaled approximately $5,100,000 for the period July 2, 1999 through September 9, 2001. In addition, management is of the opinion that Mr. Workum, and entities believed to be in his control, owe the Company and its subsidiaries $4,122,641 in uncollected loans and advances. Mr. Workum further was the recipient of a payment of $302,731 during the year ended September 30, 2002 from the Company's profit sharing plan. It is management's opinion that these amounts should be recoverable as the restated financial statements have shown that no profits were available for distribution under the plan.

Mr. Workum and Mr. Rolf Brunner, a former director of the Company, have filed a counterclaim in Arizona against the Company, EnerGCorp, Inc. and several individuals who previously acted as directors or officers of the Company or one of the Company's subsidiaries. The Company may be responsible for the costs of defending the counterclaim of all of these parties. Their counterclaim is for, among other things, breach of contract, unpaid wages, wrongful termination, tortuous interference and defamation. Mr. Brunner has counterclaimed for breach of contract respecting unpaid commissions, and together with Mr. Workum counterclaimed shareholder oppression. The counterclaims do not indicate the amount of the counterclaims.

Mr. Hennig has also filed a counterclaim against the Company seeking damages for wrongful dismissal of $475,000, unspecified damages representing the loss of employment benefits for a period of twenty-four months, $777,000 in unpaid salaries for 2000 and 2001, and other damages in the amount of $800,000 plus interest and costs. Mr. Hennig's claim for salary is in addition to consulting fees of $149,754 paid to his professional corporation during the year-ended September 30, 2002 ($315,670 in total for the period in question) and the commissions referred to above paid to an entity believed to be controlled by Mr. Workum and Mr. Hennig. Mr. Hennig also received payment from the Company's profit sharing plan during the year-ended September 30, 2002 in the amount of $274,262. It is management's opinion that these amounts are recoverable from Mr. Hennig as the restated financial statements demonstrate that no profits were realized.

Management is of the opinion that the counterclaims made by Mr. Workum, Mr. Brunner and Mr. Hennig are totally unfounded and without merit, and will vigorously defend its position. The outcome of these actions cannot be reasonably determined.

H) SULPHUR CORPORATION OF CANADA LTD.

Sulphur was previously placed under protection of the The Company Creditors Arrangement Act (CCAA) and the Company was required to cover the costs of the CCAA actions. The total estimated net outstanding liabilities of Sulphur at the time exceeded $8 million. Management does not anticipate any losses beyond those already funded and may recover certain amounts paid into court from payments that had been made to the previous management of Sulphur.

I) CHATEAU HOTELS

The Company previously had loaned $582,419 (note 6) to Chateau Hotels and Resorts Inc. ("Chateau"). Chateau is claiming that it is owed as an offset against this amount a total of approximately $900,000 for services performed pursuant to an oral agreement. Chateau has requested payments of the balance net of the offset and management has refused. No further action has been taken by Chateau at this time. The outcome of this matter is not determinable at this time.

J) COFIMA FINANZ AG

COFIMA Finanz AG (COFIMA") alleges that they have acted as the Company's agent in connection with several financings previously completed on a private placement basis. COFIMA demanded payment for unpaid commissions related to several financings completed from October 5, 1999 through December 13, 2001. They have claimed, but have not filed any formal action, that they are owed up to $500,000 in commissions in connection with the financings. COFIMA has admitted that many things were agreed on verbally and that it was agreed that COFIMA would receive three offshore companies (holding securities and cash) in lieu of consideration for the above commissions. The Company does not own any offshore companies. COFIMA owes the Company $906,645 plus interest as described in Note 4. It is Management's opinion that the claim is without merit. The outcome of this matter is not determinable at this time.

K) PROVISIONS FOR UNCOLLECTIBLE AMOUNTS

The Company is pursuing collection on all amounts due as described in Notes 4 and 5 to the extent practical. Any recovery will be recognized as income in the year of collection.

25. RESTATEMENT OF PRIOR YEARS FINANCIAL STATEMENTS

Prior to issuing the consolidated financial statements for the year ended September 30, 2002, Management completed a substantial examination of the financial statements reported in 2001 and prior. This was due to the investigation discussed in Notes 1 and 2. As a result, in the consolidated financial statements for the year ended September 30, 2002 the Company reported significant restatements of the opening retained earnings (deficit) at October 1, 2001. The Company has reclassified as part of the deficit, the immaterial cumulative translation adjustment previously reported. The effect of these restatements is as follows:

Retained earnings, September 30, 2001 as previously reported	$ 7,431,542
Correction of previous periods	(39,674,888)
Write-off of cumulative translation adjustment	26,199
Deficit, October 1, 2001	$ (32,217,147)

26. WRITE-DOWNS AND RECOVERIES

For each of fiscal 2003 and 2002 the write-down of assets, which is based on original carrying value being greater than estimated fair values, determined by management, have been recorded and are reflected in the statement of operations. When recoveries are made on amounts previously reflected as write-downs, the recovery is reflected in this category.

The write-downs (recoveries) in addition to the write-down described in note 20 by category are:

Year-ended September 30,	**2003**	2002 (Unaudited) (see Note 2)
Property, plant and equipment	**$ 1,775,000**	$ 32,668,795
Goodwill and other assets	**2,841,895**	1,798,660
Land development costs	**693,442**	2,875,191
Accounts and notes receivable	**(464,395)**	13,024,283
Due from related parties	**746,113**	10,479,567
Investments	–	11,831,436
Inventory	–	2,485,260
Other	**15,262**	
	$ 5,607,317	$ 75,163,192

27. CHANGES IN NON-CASH OPERATING BALANCES

Year-ended September 30,	2003	2002 (Unaudited) (see Note 2)
Mortgage loans held for resale	**6,267,955**	(8,035,861)
Accounts receivable	**(635,425)**	3,151,158
Inventories	**1,491,386**	(1,987,688)
Prepaid expenses and deposits	**970,279**	458,710
Restricted cash	**(413,553)**	249,270
Accounts payable and accrued liabilities	**(2,170,128)**	(308,018)
Bank indebtedness	**(7,748,041)**	7,735,155
Customer deposits	**(352,801)**	384,920
Income taxes payable	**507,457**	(168,851)
Deferred revenue	**89,769**	(133,688)
	(1,993,102)	1,345,107

28. CONTRIBUTED SURPLUS

Contributed surplus arises from the repurchase of common shares at prices less that the average attributed value per common share at the time of repurchase. Contributed surplus also arises from the excess of funds received over the cost of the assets surrendered on transactions with related parties.

Contributed surplus is as follows:

Balance September 30, 2000	$ –
Contributions from related parties regarding:	
Swiss Plastering & Interiors Inc.	7,120,429
The Creative Classic Company Inc.	4,951,911
	12,072,340
Gain on redemption of common shares:	598,550
Balance, September 30, 2001	12,670,890
Adjustment due to non-controlling interest recovery	760,848
Gain on redemption of common shares:	2,098,470
Balance, September 30, 2002 and 2003	$ 15,530,208

29. SUBSEQUENT EVENTS

A) The Company completed the dispositions described in Note 20 (ii) subsequent to the year end.

B) On December 8, 2003, Mr. Don Holmstrom, the President of Eagle Quest, the subsidiary of Family Golf Acquisitions Inc., filed a lawsuit against the Company and Eagle Quest for no specific amount of damages, alleging among other things that the Company breached certain terms of a Letter of Intent ("LOI") with Mr. Holmstrom whereby Mr. Holmstrom was going to purchase Family Golf Acquisitions Inc. from the Company. Mr. Holmstrom is also alleging that he is due a payment for severance due to a change of control clause he alleges was agreed to although no employment contract was ever completed. Mr. Holmstrom alleges he is due a payment of nine months of salary and benefits if, as a result of a change of control of Eagle Quest (See Note 17 and 20), Mr. Holmstrom's employment was terminated or the terms of his employment become less favourable. It is Managements opinion that Mr. Holmstrom's claim is unfounded as he has been offered employment on terms similar to that existing prior of the change of control and that there was no breach of the terms of his LOI.

C) In December of 2003, the Company fully repaid the note balance due Paragon Capital Corporation, along with US $1.75 million of the CPV and SPIDA notes (please see note 4).

D) TCS MORTGAGE INC. ("TCS")
During the summer of 2003 Mr. Gregory Harrington, purported to be the sole director of American Home Capital Corporation (AHCC). Ms. Cheryl Dodds, who is the Chief Financial Officer' of TCS, purportedly resigned her position as Corporate Secretary of AHCC in the summer of 2003, however, the Company maintains that Ms. Dodds retracted her resignation and was still an officer of AHCC in October of 2003.

On October 3, 2003, Mr Harrington, acting as the President and sole director of AHCC authorized the sale of TCS without the knowledge of Proprietary, the major shareholder. PPI Management has taken appropriate action to remove Mr. Harrington as President and Director and is challenging the legality of the decision taken at that time. PPI is preparing to take legal action against Mr. Harrington, Ms. Cheryl Dodds, Chief Financial Officer of TCS, and Michael Dillon, President and Chief Executive Officer of TCS, if discussions presently underway between TCS and Management do not lead to a settlement of the dispute.

E) EAU CLAIRE MARKET
Subsequent to year end, the Company agreed to dispose of Eau Claire Festival Market for $27.7 million. The agreement is subject to normal real estate adjustments, financing approval and due diligence on the part of the purchaser.

30. SEGMENTED INFORMATION

Industry Segments	**Automotive**		**Construction**		**Corporate & Other**	
	2003	2002	2003	2002	2003	2002
Total revenues	$1,660,406	$4,029,294	$1,777,896	$5,040,580	$ 595,848	$ (205,357)
Segment operating profit	(869,971)	(3,130,600)	270,277	(632,652)	(9,229,404)	(8,507,548)
Amortization	134,732	98,527	15,064	14,644	216,667	339,652
Interest expense	–	102,386	–	–	114,192	841,023
Write-downs	87,054	1,988,270	–	3,364,488	1,203,368	18,874,701
Loss before income taxes and non-controlling interest	(1,091,758)	(5,475,170)	255,213	(4,011,784)	(11,791,366)	(28,607,925)
Income taxes and non-controlling interest	–	–	138,408	–	(394,681)	(1,496,143)
Discontinued operations loss	(595,979)	(885,905)	–	–	–	–
Net loss	(1,687,737)	(6,161,075)	116,805	(4,011,784)	(11,425,402)	(27,111,782)
Identifiable assets	345,154	3,053,198	632,494	1,320,245	16,158,264	14,777,746

	Financing		**Real Estate Rentals**		**Resorts & Recreation**	
	2003	2002	2003	2002	2003	2002
Total revenues	$10,297,825	21,926,305	$ 7,713,613	$ 2,890,967	$ 7,964,005	$ 9,455,278
Segment operating profit	3,516,037	13,879,415	4,177,485	4,775,960	708,171	768,262
Amortization	59,391	60,574	1,378,969	(1,135,522)	935,615	1,505,747
Interest expense	301,460	1,917,659	2,394,965	684,874	427,700	919,342
Write-downs	2,841,895	18,795,494	1,300,000	11,352,731	175,000	13,402,922
Loss before income taxes and non-controlling interest	313,291	(6,894,312)	(896,449)	(9,898,870)	(830,144)	(15,861,850)
Income taxes and non-controlling interest	294,496	29,302	20,543	(65,589)	2,134	18,919
Discontinued operations loss	–	–	(3,283,709)	(4,922,684)	(1,344,366)	(530,146)
Net loss	47,515	(6,923,614)	(4,740,702)	(14,755,965)	(2,176,644)	(16,410,915)
Identifiable assets	15,067,233	32,721,090	62,257,980	91,323,648	17,937,373	34,417,054

	Resource		Consolidated	
	2003	2002	2003	2002
Total revenues	$ 218,445	$ 265,955	$ 30,228,038	$ 43,403,022
Segment operating profit	382,516	370,516	(1,044,897)	2,464,962
Amortization	–	1,805,589	2,740,438	2,690,211
Interest expense	36,848	–	4,302,894	4,465,284
Write-downs	–	2,917,010	5,607,317	70,695,616
Loss before income taxes and non-controlling interest	345,668	(4,636,238)	(13,695,546)	(75,386,149)
Income taxes and non-controlling interest	9,892	238,813	70,792	(1,274,698)
Discontinued operations loss	647,678	(1,536,363)	(5,116,374)	(7,875,098)
Net loss	983,453	(6,411,414)	(18,882,712)	(81,986,549)
Identifiable assets	2,281,842	7,516,126	114,680,340	185,129,107

	Canada		USA		Consolidated	
	2003	2002	2003	2002	2003	2002
Total sales	$18,167,283	$18,464,498	$12,060,754	$ 9,014,264	$30,228,038	$ 43,403,022
Segment operating profit	(1,169,864)	(113,911)	124,967	2,578,873	(1,044,897)	2,464,962
Amortization	2,431,789	1,201,248	308,649	1,488,963	2,740,438	2,690,211
Interest expense	3,801,556	2,326,959	501,338	2,138,325	4,302,894	4,465,284
Writedowns	1,920,262	35,849,115	3,687,055	34,846,501	5,607,317	70,695,616
Loss before income taxes and non-controlling interest	(9,323,471)	(42,360,219)	(4,372,075)	(33,025,930)	(13,695,546)	(75,386,149)
Income taxes and non-controlling interest	(32,356)	(291,954)	103,170	(982,744)	70,792	(1,274,698)
Discontinued operations loss	(589,867)	(2,144,927)	(4,526,507)	(5,730,171)	(5,116,374)	(7,875,098)
Net earnings	(9,880,982)	(44,213,192)	(9,001,730)	(37,773,357)	(18,882,712)	(81,986,549)
Identifiable assets	79,023,331	104,125,394	35,657,009	81,003,713	114,680,340	185,129,107
Capital Assets	41,831,239	84,365,350	403,734	41,356,187	42,234,973	125,721,537

Corporate Information

BOARD OF DIRECTORS

Stephen C. Akerfeldt
Chairman, President and
Chief Executive Officer
Proprietary Industries Inc.
Toronto, Ontario

Robert L. Julien
President, Kolter Property Inc.
Toronto, Ontario

Patrick J. Lavelle
Corporate Director
Toronto, Ontario

OFFICERS

Stephen C. Akerfeldt
President and Chief Executive Officer

Graham S. Garner
Executive Vice-President and
Corporate Secretary

Glenn F. McCowan
Chief Financial Officer

CORPORATE OFFICE

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Mintz & Partners, LLP
North York, Ontario

BANKERS

CIBC
Calgary, Alberta

SOLICITORS

Bennett Jones, LLP
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
The SWX Swiss Exchange
Trading Symbol: PPI

INVESTOR RELATIONS INFORMATION

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Proprietary
INDUSTRIES INC.